

Global Equity Research



February 20, 2002

Telecommunications--Wireline

United States

Allegiance Telecom (ALGX)[1,2]**Hold****Key Statistics**

Price	\$3.70
52-Wk Range	\$24-3
Price Target	\$5.00
Return Pot'l.	35.1%
Mkt. Cap(MM)	\$426
Sh. Out.(MM)	115.2
Float	74%
Inst. Hldgs.	68.8%
Avg. Volume(K)	1,873
Curr.Div./Yield	None/NA
Sec.Grwth.Rate	0%
Convertible?	No

Quarterly Earnings Per Share (fiscal year ends December)

	2001E	2002E	Prev	2003E	Prev
1Q	(\$0.87)A	(\$0.85)			
2Q	(0.92)A	(0.82)			
3Q	(0.94)	(0.74)			
4Q	(1.09)	(0.68)			
Year	(\$3.82)	(\$3.09)	(\$2.44)	(\$2.51)	(\$2.44)
FC Cons.:	(\$3.70)	(\$3.53)		NA	
P/E:	NM	NM		NM	
Revs.(MM):	\$517	\$785		\$1,088	

Allegiance is a national CLEC in 36 markets that offers small and medium sized businesses a range of bundled local, long distance, and data services. Allegiance employs the smart-build model - it deploys switches and leases the last mile connection to the customer in order to provide voice and data solutions.

Source: UBS Warburg LLC and First Call consensus estimates

Allegiance Telecom: In a Little While**Summary and Action**

- **Desire.** Allegiance Telecom hosted its 4Q01 conference call with investors yesterday after posting results that were below our estimates. Management provided reassurance of the underlying strength of the business model, appealing competitive profile, markets' embrace of new products, compliance with covenants, provisioning skills, and near-term liquidity position. The company's new 2002 guidance reflects our cautious view toward the business in the raging telecom storm.
- **Stuck In A Moment.** 2002 revenue guidance of \$790-\$808 million is in line with ALGX's earlier \$800 million expectation and our \$785 million estimate. The CLEC's projected 2002 EBITDA loss is now between \$15-\$25 million with breakeven in late in the third or early in the fourth quarter. This compares to our estimate of a \$21 EBITDA loss and is below previous guidance of a \$10 million loss for 2002.
- **Walk On.** We believe that Allegiance will prove to be a "Tough Stock" over time. The company is progressing into a solid carrier whose competitive position has grown while its peers have faltered. In our view the company's gradual ramp in cashflow suggests that the upside for investors will come at a later point in time. In the current environment we believe that investors should look toward more defensive opportunities than competitive carriers. We maintain our Hold rating and \$5 price target based on 8.5 multiple our 2003E EBITDA.

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Analysis

In our January 18, 2002, fourth quarter preview, "CLECs: Time for More Tune-Ups," we provided a framework for thinking about Allegiance's fourth quarter results and 2002 operating trajectory. We begin our discussion with a quick rundown of the discussion topics we were looking for on the call. We next discuss operating highlights, guidance and trends. We have placed a chart at the end of this note that reviews actual results versus our expectations.

Results for Fourth Quarter and 2001.

UBSW Discussion Topics

This section reviews statements made by management on the call with regard to the topics below.

Progress Towards Free Cash Flow – EBITDA losses narrowed from \$26 to \$22 million (excluding non-recurring items), CAPEX declined from \$88 to \$45 million, while interest expenses rose narrowly from \$14 to \$19 million.

Intermedia Backbone Acquisition – The IBI acquisition gives Allegiance a Tier 1 peering arrangement that will reduce on-net traffic costs while giving Allegiance better control of its network and costs. Revenue impacts have been excluded from guidance until management has vetted the customer base. We elaborate below.

Success-based CapEx – Capital expenditures of \$45 million were in line with our estimate. Management lowered its guidance for full year 2002 capital spending to \$215-\$240 million. Management estimated \$60 million represents maintenance and operations support systems projects, while the remainder would be success-based driven by lines installed.

Demand for IAD offering – On the strength of increased sales of integrated access devices (IADs), data revenue grew 30% from 3Q01. IADs represented about 50% of lines provisioned during the quarter, up from 40% in 3Q01. Management anticipates that IAD will represent about 60% of installations by the end of 2002. Allegiance reported 60,000 IAD orders in January, a record number.

Regulatory – Consistent with our view, management expects an "Evolution, Not Revolution" in Washington. Changes may occur in 2002, but real impacts will be felt in 2003. It expects Tauzin-Dingell will pass the House but not the Senate. ALGX believes the FCC will enact stricter enforcement actions on ILECs, and the triennial review could result in new UNE regulations, which may include elimination of some UNE elements.

Receivables – Days sales outstanding improved to 83 days from 85 days in 3Q01 and 91 days in 2Q01. Management stated that its retail base carries a 58.6 DSO metric, while its larger carrier customers such as RBOCs and IXC's push up this metric due to lengthy payment cycles of over 120 days.

IAD Backlog and Provisioning Times – Management noted that its IAD provisioning factory had achieved sufficient scale and efficiencies to lower the minimum line count for IAD from 8 to 6 lines, enabling Allegiance to sell to many more smaller businesses. ALGX maintains a backlog of over 35,000 IAD orders, and has reduced its provisioning intervals for this product to 45 days, down from 45-60 days. This interval is particularly impressive given that about 90% of new IAD lines are provisioned over T-1s, which can take considerable time for the RBOC to deliver.

Salesforce – Allegiance exited the quarter with 1,584 salespeople, up from 1,571 at the end of 3Q01, reflecting a modest trimming of its base and a focus on quality.

Draw Down of Credit Facility – Allegiance did not draw additional funds during the quarter.

Highlights

Detailed results are discussed in the chart at the end of this call note.

Revenue: The company reported 4Q01 revenue of \$151.8 million, which reflects 12% sequential growth, but was still 1% below our expectations. Local revenue grew to \$87.5 million (see below). Both long distance and data revenue exceeded expectations with 27% and 30% sequential growth, respectively, exceeding our estimates by 14% and 13% respectively. IAD lines represented about 50% of the 135,000 lines provisioned during 4Q01.

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Due to a database audit, Allegiance eliminated \$5 million in local revenue. We discuss this further below. Thus, we compare corrected 3Q01 local revenue of \$80.4 million to 4Q01 local revenue of \$87.5 to derive a 9% growth rate, slightly below our 12% growth expectations. This \$5 million elimination is a one-time event. The audit led to elimination of 125,000 lines from its total line counts. Thus, since IAD lines tend to carry lower revenue per line, ARPU fell to \$50 during the fourth quarter from an adjusted \$51.50 in the third quarter (ALGX reported \$48 ARPU including the 125,000 lines).

Switched access revenue fell to 12.2% of revenue in 4Q01, down from 12.6% in 3Q01 and 14.9% in 2Q01.

EBITDA: ALGX's EBITDA loss declined to \$27.7 million, which includes a one-time charge of \$5.5 million. Excluding this charge, its \$22.2 million loss is a 16% improvement compared to its loss of \$26 million in 3Q01. This loss exceeded our estimate by 5%, and was slightly below management's guidance of \$20 to \$22 million loss. This represents a negative 14.6% EBITDA margin, a 500 basis point improvement from ALGX's EBITDA margin from 3Q01. The company's EBITDA loss was impacted by increases in the company's bad debt provision to 23% of gross A/R from 22% gross A/R in the third quarter.

Balance Sheet: The company reported approximately \$550 million in cash and available funding as of the end of the year. This was less than the \$600 million we expected due to a \$30 million in working capital growth and the acquisition of Intermedia's Internet assets. Capital expenditures were \$45 million for the quarter, in-line with our estimates. Gross receivables grew slightly faster than revenue, days sales outstanding improved to 83 days from 85 in 3Q01. Management expects DSOs to decrease to 72-73 by the end of 2002.

Other: On January 3, ALGX announced the acquisition of the assets, customers and contracts of Intermedia Business Internet (IBI) from WorldCom. This provides the company with Tier-1 Internet peering status, reduces its transit costs and gives it additional retail and wholesale customers. While the purchase price was not disclosed, we estimate that the company paid about \$12 million for the assets, which closed just prior to year-end. We derived this by examining the change in cash balance given known uses of cash, and using the acquisition price as the plug.

We expect this acquisition will benefit ALGX's cost structure rather than be a significant revenue driver. ALGX spends between \$2 million and 4 million per quarter on Internet transit costs. Much of this cost will be eliminated as the company migrates its Internet traffic onto the IBI backbone. Further, Allegiance gains more control over its network resources. On the revenue side, we anticipate many of the current customers will churn. We do not expect the company to provide greater clarity of the economics of the acquisition and its impact on ALGX's revenue and EBITDA until 2Q02. Thus, we have not included this acquisition in our projections.

Guidance and UBSW Estimates

ALGX provided the following guidance for 2002.

Table 1: ALGX Guidance for 2002.

	1Q02	2Q02	3Q02	4Q02	2002
Revenue (\$mm)	165 – 168	185 – 190	208 – 213	232 – 237	800
EBITDA					(25) – (10)
CapEx					215 – 240

Source: Allegiance

Trends

Data Strength. Data revenue surged in the quarter at 30% sequentially, up from 15% sequential growth in the third quarter, and 12% sequential growth in the second quarter.

Reclassifying Lines in Service. Allegiance undertook a database reconciliation project that resulted in the reduction of its line count by 125,000 lines. The project adjusted for synchronization and data entry errors between the provisioning and billing systems. Since most errors were contained in the provisioning system, not the billing system, the impact of revenue was immaterial. The adjustment included 95,000 facilities-based lines and 30,000 resold lines. Thus, Allegiance ended the fourth quarter with 1,015,000 lines in service.

Lines sold increased from 182,000 in the third quarter to 190,000 lines, an increase of 4.4 percent, and 1% above our expectations. Lines installed were down slightly from 136,200 in the third quarter to 135,000 in the fourth quarter.

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Differentiating from the RBOCs. Allegiance pointed out two areas where it can offer a differentiated product relative to RBOC offerings. First, its IAD product offers both voice and data services over a single T-1 or HDSL2 line. T-1s represent about 90% of current IAD implementations. Second, through its Allegiance Select program, customers with offices in multiple cities with Allegiance service can receive free inter-office calling when they use Allegiance for basic connectivity, voice and long distance options. Since all services are on-net, this package can be offered without payment of intercarrier compensation.

Consistent Gross Margins. Allegiance's gross margin remained flat at 51.3%, exceeding our expectations by 50 basis points. This result is impressive given ALGX launched two markets during the quarter, which often leads to higher operating expenses.

Cost Controls and Back-Office Improvements. Allegiance continues to invest heavily in operations support systems and electronic bonding initiatives. ALGX recently implemented a new Saville billing system for its Pittsburgh market. It hopes to put all new customers on this system during the next few quarters.

Guidance Close to Debt Covenants. The table below shows Allegiance's 2002 guidance in relation to its revenue requirements. Specifically, in the second quarter of 2002, management is guiding to only a \$5 million revenue cushion. We hope management's guidance proves to be conservative.

Table 2: Allegiance's Debt Covenants

	1Q02	2Q02	3Q02	4Q02	2002
Revenue (\$mm)	165 – 168	185 – 190	208 – 213	232 – 237	800
Required Revenue per debt covenant	155	180	200	220	755

Source: Allegiance

Statement of Risk

- Allegiance is the Corvette of CLECs and has its high beams on. It nevertheless is driving through industry and economic storms that make roads both slick and foggy. It will be a tough route for the CLEC to navigate while visibility is difficult.

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Table 3: 4Q01 Earnings Results Analysis



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Allegiance Telecom Inc.

4Q01 Earnings Results Analysis (\$ in millions except per share amounts)

	1Q01A	2Q01A	3Q01A	4Q01E	4Q01A	4Q01 Actual vs 4Q01E	3Q01A	Comments
Local revenue	73.0	80.4	85.4	96.1	87.5	-9%	2%	Excluding \$5 million in 3Q01 from billing database duplication, local revenue grew from 80.4 to 87.5, or 9%.
Long distance	5.4	6.4	7.8	8.7	9.9	14%	27%	
Data revenue	27.5	37.3	41.9	48.1	54.4	13%	30%	IAD sales represented approx 50% of total 4Q01 installs
Total Revenue	105.9	124.1	135.1	153.0	151.8	-1%	12%	Slightly below expectations
Operating Expense	51.2	60.8	65.7	75.3	74.0	-2%	13%	Better than anticipated gross margin
Gross Profit	54.6	63.3	69.4	77.6	77.8	0%	12%	In line
SG&A Expense	84.6	91.4	95.9	98.7	105.5	7%	10%	Includes \$5.5m to writedown systems and equip from acquisitions
EBITDA	(30.0)	(28.1)	(26.4)	(21.0)	(27.7)	32%	5%	
Recurring EBITDA	(30.0)	(28.1)	(26.4)	(21.0)	(22.2)	5%	-16%	Lower than expected due to higher recurring SG&A
Other Expenses								
Depreciation & Amortization	51.3	59.8	71.1	73.1	75.7	4%	6%	Slightly higher than expected
Other (Income) Expense	6.1	2.2	(5.3)	-	-	NM	-100%	
Interest Expense Net	8.9	13.2	14.2	19.1	22.2	16%	56%	Lower interest income due to lower interest rates
Total Other Expenses	66.4	75.2	80.1	92.2	97.9	6%	22%	
Net Income (Loss)	(96.3)	(103.3)	(106.5)	(113.2)	(125.6)	11%	18%	Writedown of assets; higher dep'n and interest expense
Net Income (Loss) Per Share	\$ (0.87)	\$ (0.92)	\$ (0.94)	\$ (0.98)	\$ (1.09)	11%	17%	Writedown of assets; higher dep'n and interest expense
Primary Shares Outstanding	110.7	112.9	113.7	115.2	114.8	0%	1%	
Margin Analysis								
Gross Margin	51.6%	51.0%	51.4%	50.8%	51.3%	1%	0%	Better than expected
SG&A Margin	79.9%	73.7%	70.9%	64.5%	69.5%	8%	-2%	65.9% excluding asset writedown
Recurring EBITDA Margin	-28.3%	-22.7%	-19.6%	-13.8%	-14.6%	6%	-25%	
Operating Margin	-76.8%	-70.9%	-72.2%	-61.5%	-68.1%	11%	-6%	
Net Margin	-91.0%	-83.3%	-78.8%	-74.0%	-82.7%	12%	5%	Writedown of assets; higher dep'n and interest expense
Balance Sheet and Cash Flow								
Cash	510.1	312.4	537.6	453.1	399.3	-12%	-26%	Higher working capital inflation combined with ICIX acquisition
Accounts Receivable	111.1	125.2	127.0	143.8	141.4	-2%	11%	In line; reported DSOs decline to 83 days from 85 in 3Q01; 58 days for retail.
Gross PP&E	1,045.5	1,181.2	1,297.3	1,342.3	1,366.7	2%	5%	Capex in line; assume acquisition of ICIX assets
Long Term Debt	576.3	601.7	983.2	994.4	1,002.6	1%	2%	Increase in capital leases
Shareholders Equity	921.2	822.2	729.9	616.7	608.1	-1%	-17%	Writedown of assets; higher dep'n and interest expense
Total Cash and Funding	1,010.1	812.4	687.6	603.1	549.3	-9%	-20%	Higher working capital inflation combined with ICIX acquisition
Capital Expenditures	120.5	119.6	92.5	45.0	45.4	1%	-51%	In line
Debt to Book Capital	38%	42%	57%	62%	62%	1%	8%	In line
Additional Information								
Lines Sold	165,900	192,000	182,000	188,520	190,000	1%	4%	In line
Lines Installed	126,200	135,800	136,200	141,390	135,000	-5%	-1%	Lower than expected; adjusted to exclude line reconciliation
Monthly Revenue per Line	52.61	51.58	48.03	47.4	50.1	6%	4%	Reconciliation of access lines resulted in downward adj of approx 125k lines from 3Q01
% Change	-8.0%	-2.0%	-6.9%	-1.4%	4.3%			

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Source: UBSW Estimates

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8:51am EST 20-Feb-02 Blair, William & Co. (Ken Kotylo) ALGX ALGX.O
 Allegiance Telecom Posts Solid Fourth-quarter and Year-end 2001 Results

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Allegiance Telecom, Inc. (ALGX)

Price	2/20	Earnings Per Share	P/E Ratio	Div.	Yield	LTGR	Rating
3.70	12/00A 12/01E 12/02E	12/01E 12/02E	\$0.00	0.0%	NA	1	
\$3-\$24)	-\$2.56 -\$3.76 -\$3.82	NM NM					

Allegiance Telecom reported fourth-quarter revenue of \$151.8 million, an EBITDA loss of \$22.2 million (excluding a nonrecurring charge of \$5.5 million related to recent acquisitions), and approximately 135,000 net line installs. In 2001, the company posted \$516.9 million of revenue, an EBITDA loss of \$112.2 million (\$106.7 excluding the one-time charge), and approximately 533,000 net line installs.

Full-year 2001 results are slightly below revised revenue guidance of \$523 million, and reasonably in line with EBITDA loss guidance between (\$105 million to \$100 million). Net line installs of 533,000 were within guidance of 525,000 to 535,000 net installs.

The company also reaffirmed 2002 annual revenue guidance of approximately \$800 million that it set on September 26, 2001. Allegiance also provided quarterly revenue guidance. Quarterly 2002 debt covenants also were given on yesterday's conference call.

Allegiance added two new markets in the fourth quarter: Pittsburgh in November and West Palm Beach/Boca Raton, Florida, in December. The company completed its 36-market build on schedule in 2001.

The company's high-margin Integrated Access Service (the company's combined voice and data product offering) continues to gain traction. The company estimates 50% of its 60,000 access line installs in January were IAD, up from 0% of total installs in the third quarter.

We believe the company is fully funded through free cash flow positive in 2005 with its combined \$549 million in cash and credit available (albeit with little margin for error). The company has \$399 million in cash and \$150 million remaining in its credit facility.

Investment Summary

>We maintain our Strong Buy rating on Allegiance Telecom. In our view, the current share price reflects the extremely negative investment sentiment as well as funding concerns surrounding the telecom sector. However, the company's market expansion is now complete and we look for the operational leverage of the business model to produce positive EBITDA in the fourth quarter this year. Continued strong revenue growth is vital for the company to achieve this critical EBITDA inflection point. For these reasons, we believe 2002 is a pivotal year for the company. While the investment environment is likely to remain challenging throughout the year, we believe the company's long-term business fundamentals are still intact. In summary, we believe that risk-tolerant investors with a long-term investment horizon should take advantage of the current weakness to accumulate the shares.

Fourth-quarter Highlights

>Allegiance posted fourth quarter 2001 revenues of \$151.8 million, a sequential

increase of 12.3% and year-over-year increase of 59.8%. In the most recent quarter, revenue comprised \$87.5 million in local revenue, \$9.9 million in long-distance, and \$54.4 million of data/Internet services, sequential increases of 2.4%, 6.5%, and 29.8%, respectively. For 2001, revenue totaled \$516.9 million, up 81% from 2000 revenue of \$285.2 million.

In the fourth quarter 2001 EBITDA loss totaled \$27.7 million (\$22.2 excluding a one-time \$5.5 million charge). The full year 2001 EBITDA loss totaled \$112.2 million including the \$5.5 million one-time charge, or a loss of \$106.7 million excluding the \$5.5 million one-time charge. The loss of \$106.7 million is slightly below management's EBITDA guidance of between a loss of \$100 million and \$105 million. The company's 2002 guidance calls for an EBITDA loss between \$15 million to \$25 million, with the goal of turning EBITDA positive in the second half of the year (see table below).

The company provided 2002 revenue, EBITDA, and capital expenditure guidance. The company also provided quarterly revenue covenants. We highlight the guidance and revenue covenants below.

2002 guidance
In Millions)

	Q1	Q2	Q3	Q4	2002
Revenue	\$165-\$168	\$185-\$190	\$208-\$213	\$232-\$237	\$800
Rev. Cov's	\$155	\$180	\$200	\$220	\$755
EBITDA			Positive in 2nd half		(\$15-\$25)
Cap-ex					\$215-\$240
New installs					600,000

Operating leverage continues to improve margins as the company gains scale. Sixteen of the company's markets have turned EBITDA positive (pre-corporate overhead), up from 14 in the third quarter. Consolidated EBITDA margin improved to negative 18.2%, up from negative 19.6% in third quarter 2001, and up significantly from a negative 31.5% EBITDA margin in fourth quarter 2000.

Profitability in early nine markets declined slightly due to the one-time reconciliation project. Fourth-quarter EBITDA margins were 27.8%, down slightly from 28.2% in the prior quarter, but up significantly from a 19.6% margin in fourth quarter 2000. In the fourth quarter, revenue in the early nine markets grew 2.0% sequentially. However, data growth was particularly strong, up 44% sequentially, reflecting the rollout of the IAS in these markets.

Alliance installed roughly 135,000 new lines in the fourth quarter, and installed approximately 533,000 million access lines in 2001. The fourth-quarter line installs reflect the negative impact of the Sept. 11 tragedy. Additionally during the quarter, the company completed a line reconciliation project that resulted in the adjustment downward of approximately 25,000 lines (95,000 facilities lines and 30,000 resale lines). As a result, the company ended the year with 1.015 million lines installed. Alliance sold 90,000 lines during the quarter, up from 182,000 lines sold in the third quarter. The company also reported that it installed approximately 60,000 lines in January.

Integrated Access Service (the company's combined voice and data product offering) continues to gain momentum, representing 50% of new installs, up from 40% of new installs in the third quarter and 22% in the second quarter. Last quarter, the company estimated that more than 70% of its integrated access customers use long-distance service and all use some form of shared hosting.

Capital expenditures totaled \$45.4 million in the fourth quarter and \$369.1

illion in 2001. We forecast 2002 capital expenditures to decline to \$225 million, within guidance estimates between \$215 million to \$240 million. The company estimates that roughly \$150 million to \$180 million of its 2002 capital expenditures will be success-based and the remaining \$60 million is targeted for SS upgrades and maintenance capital expenditures.

llegiance ended the fourth quarter with cash and equivalents totaling \$399 million, and the company has \$150 million remaining on its \$500 million committed credit facility, bringing total cash and credit available to approximately \$549 million. We believe this capital is sufficient to fund its current business plan (albeit with little margin for error).

llegiance Performance Data (\$ in millions, unless stated)

	4Q00	1Q01	2Q01	3Q01	4Q01
ocal Rev.	\$65.7	\$73.0	\$80.4	\$85.4	\$87.5
eq.Gwth.	10%	11%	10%	6%	2%
ata Rev.	25.1	27.5	37.3	41.9	54.4
eq.Gwth.	48%	10%	36%	12%	30%
D Rev.	4.2	5.4	6.4	7.8	9.9
eq.Gwth.	27%	29%	19%	22%	27%
otal Rev.	\$95.0	\$105.9	\$124.1	\$135.1	\$151.8
eq Gwth.	19%	11%	17%	9%	12%
ross Margin %	50%	52%	51%	51%	51%
BITDA %	(31%)	(28%)	(23%)	(19%)	(18%)
ap-Ex	\$101.8	\$120.5	\$114.7	\$88.4	\$45.4
et lines sold (thous.)	152.0	165.9	192.0	182.0	190.0
et lines installed (thous.)	108.0	126.2	135.8	136.2	135.0
otal lines n svc.(thous.)	607.7	733.9	869.7	1005.9	1015.0
dres. mkt. (mil.)	16.5	17.8	19.1	19.9	20.4
arkets	27	29	32	34	36
olocation	636	687	740	772	789
ales force	1333	1471	1612	1571	1584
nn Rev-per sales orce (in 000s)	\$297	\$302	\$322	\$340	\$385
/R-DSO	90	95	90	85	84
onthly rev- er line	\$57.21	\$52.61	\$51.58	\$48.03	\$50.08
ccess revenue of revenue	25%	20.1%	14.9%	12.6%	12.2%

William Blair & Company, L.L.C. maintains a market in the common shares of the company.

Additional information is available upon request.

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ON



High Yield Wireline Telecommunications Research
JPMorgan
New York, 21 February 2002

Allegiance Telecom Fourth-Quarter Results; Reiterate HOLD Recommendation

Issue	Amount \$MM	Maturity	Rating	Next Call		Market Data as of 21-Feb-2002		
				Date	Price	Price	YTW	STW
12 7/8% Sr Notes	205.0	15-May-06	B3/B	15-Feb-03	106.44	48	33.01%	2862 bp
0/11 3/4% Sr Disc Notes	445.0	15-Feb-08	B3/B	15-Feb-03	105.88	30	38.68%	3432 bp

- On 19 February, Allegiance Telecom (ALGX) reported fourth quarter earnings with revenue of \$151.8m, up 12.4% sequentially (JPM estimate: 8.9%). Normalized EBITDA (excluding a \$5.5m one-time charge associated with grooming its back-office systems) improved to a loss of \$22.2m (JPM estimate: loss of \$23.8m). Including the one-time charge, EBITDA loss was \$27.7m for the quarter.
- Gross margin slipped slightly from 51.4% in 3Q01 to 51.3% in 4Q01. SG&A as a percent of revenue improved slightly from 70.9% in the prior quarter to 69.5% (including the one-time charge).
- Management reiterated 2002 guidance of \$800 million in revenue (54.8% growth) and turning EBITDA-positive during the second half of the year. ALGX reduced its capital expenditure plan from \$225m-\$250m to \$215m-\$240m. For the first time, the company outlined its covenants as well as quarterly guidance. The company has four financial covenants: minimum revenue, maximum capital expenditures, senior secured debt to capitalization, and total debt to capitalization. In our view, the minimum revenue test will be the covenant which should be the most closely watched:

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Minimum Revenue Covenant vs Guidance (\$MM)

morganmarkets.jpmorgan.com

Covenant	Guidance	Mid-Point Cushion
155	165-168	7.4%
180	185-190	4.2%
200	208-213	5.3%
220	232-237	6.6%

- During the quarter, ALGX changed the way it counts and reports access lines, resulting in a reduction of total access lines by 125,900 to 1,015,000 total access lines at year-end. Net installations for the quarter were thus 9,100 even though the company reported 135,000 actual installs for the quarter, basically flat versus third quarter 2001. The line reduction was the result of a coordination of billing and provisioning databases, correcting past inconsistencies.
- We changed our recommendation on ALGX bonds from BUY (Long Term) to HOLD on 24 October 2001. Management has a tough task ahead, having to significantly ramp-up revenues while only allowing slight SG&A and network expense increases on an absolute dollar basis. Overall SG&A must be significantly reduced as a percent of revenue to achieve company guidance. The revenue ramp up is also aggressive — for instance, ALGX projects 54.8% top-line annual growth, while we believe Time Warner Telecom (Buy/Long Term) will grow at a considerably slower rate (JPM est: 10.9%). We are maintaining our HOLD recommendation at this time.



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Alliance Telecom Fourth-Quarter Results Reiterates HOLD Recommendation

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Alliance Telecom (ALGX)								
Income Statement (\$M)	4Q'01A	3Q'01A	Seq. Chg.	1Q'02E	Seq. Chg.	2001A	2002E	Ann. Chg.
Local sales	\$87.3	\$85.4	2.3%	\$91.9	5.0%	\$324.3	\$427.3	31.0%
Long distance	8.9	7.8	24.5%	14.2	43.5%	29.5	71.0	140.5%
Data/Internet services	54.4	41.9	29.8%	63.0	15.3%	161.3	262.5	62.5%
Total Revenues	150.6	135.1	12.4%	168.1	11.4%	515.1	760.8	47.2%
Cost of sales	(74.0)	(65.7)	12.4%	(75.9)	2.6%	(251.7)	(330.2)	31.2%
Gross Profit	77.8	69.4	12.1%	92.1	19.7%	263.2	430.7	62.4%
Gross Margin	51.5%	51.4%	-0.2%	53.1%	7.5%	51.3%	56.6%	10.3%
SG&A	(105.5)	(95.9)	10.1%	(108.3)	3.1%	(377.4)	(463.0)	22.7%
SG&A/Revenue	69.5%	71.0%	-2.0%	64.3%	-7.4%	73.0%	60.9%	-16.7%
EBITDA	(27.7)	(26.5)	4.6%	(15.7)	-43.5%	(112.3)	(32.3)	-71.2%
EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM
Cash Interest Expense ¹	12.1	9.1	33.0%	11.4	-3.4%	30.1	57.2	90.2%
Total Interest Expense	23.1	18.7	23.6%	19.4	-16.1%	74.3	97.1	30.8%
EBITDA/Cash Interest	--	--	--	--	--	--	--	--
EBITDA/Total Interest	--	--	--	--	--	--	--	--
(EBITDA - Capex)/Cash Interest	--	--	--	--	--	--	--	--
(EBITDA - Capex)/Total Interest	--	--	--	--	--	--	--	--
EBITDA minus Cash Interest	(39.8)	(35.6)	11.9%	(32.7)	-17.7%	(142.3)	(98.5)	-37.1%
Capital Expenditures	(45.4)	(88.4)	-48.6%	(33.2)	31.8%	(364.4)	(230.0)	-36.9%
Interest Income	0.9	4.5	-79.4%	0.5	-46.1%	15.6	2.3	-85.3%
Free Cash Flow	(84.3)	(119.4)	-29.5%	(65.4)	3.8%	(491.1)	(317.2)	-35.4%
Balance Sheet (\$M)	12/31/01	9/30/01	12/31/01	9/30/01	12/31/01	9/30/01	12/31/01	9/30/01
12 7/8% Sr Nts	\$204.0	\$204.0		\$204.0		\$204.0	\$204.0	
0/1 3/4% Sr Disc Nts	322.7	322.7		322.7		322.7	322.7	
Credit Facility	350.0	350.0		350.0		350.0	350.0	
Capital Lease Obligations	65.8	65.8		65.8		65.8	65.8	
Total Debt	\$1,042.5	\$1,042.5		\$1,042.5		\$1,042.5	\$1,042.5	
Stockholders' Equity	\$28.1	\$28.1		\$28.1		\$28.1	\$28.1	
Total Capitalization	\$1,070.6	\$1,070.6		\$1,070.6		\$1,070.6	\$1,070.6	
Operating Ratios	4Q'01A	3Q'01A	Seq. Chg.	1Q'02E	Seq. Chg.	2001A	2002E	Ann. Chg.
Lines Installed ²	1,015,800	1,005,900	0.9%	1,156,800	14.0%	1,015,000	1,565,000	54.2%
Lines Add ²	9,160	136,200	-93.3%	141,800	149.2%	407,300	550,000	35.0%
Lines Sold	1,573,300	1,381,200	13.7%	1,777,829	13.0%	1,573,300	2,173,300	38.1%
Lines Installed/Lines Sold	64.5%	72.7%	-11.5%	65.1%	0.9%	64.5%	72.0%	11.6%
Collections	789	772	2.2%	832	6.4%	789	808	1.4%
Collection Adds	17	32	-46.9%	60	252.9%	150	11	-92.7%
Markets	36	34	5.9%	36	0.0%	36	36	0.0%
Employees	4,140	3,948	4.9%	3,999	-3.4%	4,140	4,140	0.0%

1. JPMorgan estimates.
2. Net lines adds were approximately 135,000 lines for the fourth quarter (down 0.9% from 3Q'01); however, Alliance made an adjustment to its installed base of lines as a result of a data reconciliation adjustment and a correction to past data.

Source: JPMorgan




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KBRO**ACTIONALERT****VIK GROVER, CFA**Wireline Services
212-292-8123
vgrover@kbro.com**4Q01 UPDATE****STRONG BUY****February 25, 2002**

Date of Last Report: December 10, 2001

KAUFMAN BROS., L.P.800 Third Avenue, 25th Floor
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www.kbro.com**KBRO Trading Desk: 1-800-807-8723****ALLEGIANCE TELECOM, INC.**
(ALGX+ */NASDAQ)**PRICE: \$2.00 (INTRADAY)****PRICE TARGET: LOWERED TO \$12**
FROM \$20

Market Cap (MM)	\$230.4	Estimated Report Date:	May 2002
Shares O/S (MM)	115.2	52-Week Range:	\$24 - \$2
LT Debt (MM)	\$1,027.7	Avg Daily Volume:	2,320,462

EPS (FY Ends 12/31)	2000A	2001A (NEW)*	2001E (OLD)*	2002E (NEW)**	2002E (OLD)
Mar (1Q)	(\$0.59)	(\$0.87)	-	(\$0.82)	-
Jun (2Q)	(\$0.52)	(\$0.92)	-	(\$0.77)	-
Sep (3Q)	(\$0.67)	(\$0.94)	-	(\$0.72)	-
Dec (4Q)	(\$0.77)	(\$0.96)	(\$0.90)	(\$0.67)	-
Full Year EPS	(\$2.55)	(\$3.68)	(\$3.62)	(\$2.99)	(\$3.26)
% Change EPS	NM	NM	NM	NM	NM
Price / Earnings	NM	NM	NM	NM	NM
Revenue (MM)	\$285.2	\$516.9	\$516.8	\$774.6	\$768.5
% Change Revenue	188%	81%	81%	50%	49%
Total cap / Revenue	4.4x	2.4x	2.4x	1.6x	1.6x
EBITDA (MM)	(\$117.9)	(\$106.7)	(\$106.1)	(\$24.2)	(\$29.9)
% Change EBITDA	NM	NM	NM	NM	NM
Total cap / EBITDA	NM	NM	NM	NM	NM

*2001 results exclude non-recurring items; **2002 estimates updated for FAS 142.

KEY POINTS

- We are updating our estimates for Allegiance Telecom to reflect in-line 4Q01 results, database adjustment to installed line count, continued strong funding position of \$550 million, network completion, affirmed guidance, anticipated EBITDA inflection in 2H02, and heightened sector risk.
- We are slightly raising our previously Street low 2002 revenue forecast to reflect indications of 60,000 line installs in the month of January, which provides visibility to 2002 growth. Higher cumulative installs combined with firmer ARPU lead to revenues that should approach \$774 million, 3% below guidance but ahead of our prior estimates and the company's revenue covenant which calls for 2002 revenues of \$755 million.
- We think the weak stock price action for ALGX last week was driven by sellers who have given up on the competitive telecom model altogether. In our view, the company is now getting zero credit for the four years of execution it has delivered since inception, which puts it on a run rate to hit annualized revenues of \$1 billion this December.
- At some point, despite the pain investors have endured across the telecom sector, we predict the Street will award a premium valuation to those companies delivering results even in difficult times and well positioned to achieve their true potential as competitors to the slow/no-growth incumbents. We count Allegiance Telecom as such a company.
- We reiterate our STRONG BUY recommendation on ALGX but are lowering our price target to \$12 from \$20, which represents a target EV of \$2.3 billion, or 3.0x 2002E revenues and \$1,446 per installed line.

UPDATING ESTIMATES; STOCK WASHED OUT AS NETWORK IS COMPLETED; COMPANY IS POISED TO SCALE REVENUES AND EBITDA - REITERATE STRONG BUY ON HEELS OF RECORD MONTH IN JANUARY

- We are updating our estimates for Allegiance Telecom to reflect the following:
 - In-line 4Q01 results: Revenues grew 12% QoQ to \$151.8 million, directly in line with our estimate; recurring EBITDA losses narrowed by \$4.3 million sequentially to (\$22.1 million), at the low end of guidance and missing our estimate by several hundred thousand dollars. Note Internet/data revenues grew 29% sequentially to \$54.4 million, or 36% of revenues, from \$41.9 million, or 31% of revenues in 3Q01. Local, Internet and data products now contribute an impressive 93-94% of revenues. Access is down to 12.2% of revenues versus 20.1% in 1Q01; further, 16 markets are now EBITDA positive excluding corporate allocations, up from 11 at 1Q01.

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KBRO**ACTIONALERT**

2. Database adjustment to installed line count: Management reduced reported lines by 125,000, including 30,000 zero-value resale lines, due to inaccurate reporting between provisioning systems. This adjustment had a minor impact to revenues but does not impact our long-term forecasts due to an implied higher blended ARPU. We note lines sales and installs of 190,000 and 135,000, respectively, missed our estimates of 196,952 and 147,389, likely due to heightened disconnects and customer churn on the heels of the 9/11 tragedy, which has characterized the entire service provider sector, in our view.
 3. Continued strong funding position of \$550 million in liquidity, including roughly \$400 million in cash and \$150 million in availability under credit agreements, which funds Allegiance to free cash flow (FCF) positive in 2004; we assume the company taps \$100 million in vendor lines or supplemental agreements within 18 months to provide additional cushion to its plan, which is well within the limits of debt/total capital covenants (the company is only at 0.38x, versus a covenant test of 0.60x).
 4. Network completion and anticipated success-based spending on 36 markets, which should ramp EBITDA and FCF as capex is expected to fall to \$215-240 million from \$364 million in 2001 and as staff levels are only grown in order to expand the company's field sales force (almost 1,600 professionals nationwide). We estimate the company will spend capital at the low end of this range during 2002.
 5. Guidance for 600,000 installs in 2002, which is well above our prior estimate of a half million and implies strong productivity per rep as the company's sales force becomes "seasoned".
 6. EBITDA inflection in 2H02, in line with our prior estimates and including a range of (\$15 million) - (\$25 million), better than our prior 2002 EBITDA estimate of (\$29.9 million). We are raising our EBITDA loss estimate to (\$24.2 million), near the low end of management's range, reflecting our belief that the sluggish economy and heightened win-back initiatives of the RBOCs could impact the company's SG&A efficiency and customer acquisition/maintenance costs over the course of the year.
 7. Heightened sector risk and resulting higher WACC, driven by shuttered capital markets. This impacts our DCF valuation by driving a lower terminal value. Potentially offsetting this risk is continued strong growth and visibility off record January results, improving market share gains at the expense of RBOCs and other CLECs that are "melting", and a substantially higher likelihood that Allegiance will take 5-10% share of the local, data and long-distance enterprise space over the full range of our model due to a thinned playing field.
- We are slightly raising our previously Street low 2002 revenue forecast to reflect indications of 60,000 UNE and IAD-based installs in the month of January – this is a record month and likely to be the benchmark for 2002 performance rather than an anomaly, according to management. Higher cumulative installs combined with firmer ARPU in the \$50 range (versus our prior forecast of ARPU in the high \$40s) lead to revenues that should approach \$774 million, 3% below guidance but ahead of our prior estimates and the company's revenue covenant which calls for 2002 revenues of \$755 million (1Q02: \$155 million versus our estimate of \$162.3 million; 2Q02: \$180 million versus our estimate of \$183.0 million; 3Q02: \$200 million versus our estimate of \$204.0 million; and 4Q02: \$220 million versus our estimate of \$225.2 million).
 - We think the weak stock price action for ALGX last week was driven by sellers who have given up on the competitive telecom model altogether. Admittedly, recounts of installed lines and limited cushion relative to revenue covenants are yellow flags for investors; however, given the limited revenue impact of the recount (i.e., less than \$5 million) and noting that Internet/data products could drive results well ahead of our local driven sales model, we think Allegiance has "room to breathe". In our opinion, the company is now getting zero credit for the four years of execution it has delivered since inception, which puts it on a run rate to hit annualized revenues of \$1 billion this December.
 - At some point, despite the pain investors have endured across the telecom sector, we predict the Street will award a premium valuation to those companies delivering results even in difficult times and well positioned to achieve their true potential as competitors to the slow/no-growth incumbents. We reiterate our STRONG BUY recommendation but are lowering our price target to \$12 from \$20, which represents a target EV of \$2.3 billion, or 3.0x 2002E revenues and \$1,446 per installed line.

COMPANY DESCRIPTION

Allegiance Telecom is a competitive provider of telecommunications services to small- and medium-size business, government and other institutional users in major metropolitan areas across the U.S. The company offers an integrated set of telecommunications services including local exchange, local access, domestic and international long distance, enhanced voice, data and a full suite of Internet services.

†Kaufman Bros., L.P. makes a market in this security.

•Kaufman Bros., L.P. acted as an underwriter in a public offering of this security.

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KBRO 53

KBRO**ACTIONALERT****Alliance Telecom, Inc.****Consolidated Statement of Operations / Earnings Model**

(In thousands, except per share data)

	2000A	1001A	2001A	3001A	4001A*	2001A*	1002E**	2002E**	3002E**	4002E**	2002E**	2003E
Salespeople, end of period	1,333	1,471	1,612	1,571	1,564	1,584	1,597	1,609	1,622	1,634	1,634	1,659
Total lines sold	505,900	165,900	192,000	167,000	190,000	729,900	182,481	183,916	186,380	186,784	739,531	755,744
Cumulative lines sold	843,400	1,009,300	1,201,300	1,363,300	1,448,300	1,448,300	1,630,781	1,814,697	2,000,047	2,186,831	2,186,831	2,942,575
Lines installed	366,000	126,300	136,800	136,200	135,000	533,200	144,750	148,250	151,760	155,250	600,000	604,595
Cumulative lines installed	607,700	733,900	869,700	1,005,900	1,015,000	1,015,000	1,199,750	1,308,000	1,459,750	1,615,000	1,615,000	2,219,595
Average monthly revenue per line	\$ 57.68	\$ 52.61	\$ 51.68	\$ 49.03	\$ 50.68	\$ 49.27	\$ 49.76	\$ 49.45	\$ 49.14	\$ 48.83	\$ 49.30	\$ 48.05
Revenue	\$ 285,227	\$ 185,874	\$ 124,859	\$ 135,137	\$ 151,818	\$ 516,888	\$ 162,336	\$ 183,945	\$ 204,883	\$ 225,281	\$ 774,585	\$ 1,185,885
YoY growth	187.0%	124.5%	98.9%	68.9%	59.8%	81.2%	53.3%	47.5%	51.0%	48.3%	49.9%	42.8%
Cost of services	150,718	51,238	50,801	65,714	73,591	251,734	78,249	87,316	86,283	105,173	367,031	507,608
Gross profit	134,509	\$4,646	\$3,258	\$69,423	\$77,827	\$265,154	\$84,087	\$95,729	\$118,710	\$120,828	\$407,554	\$678,196
Operating expenses:												
SG&A	252,368	84,622	91,354	95,864	100,008	371,888	102,884	106,216	109,617	113,082	431,802	495,446
EBITDA	(117,859)	(79,976)	(88,136)	(26,441)	(22,181)	(106,734)	(18,797)	(10,489)	(1,908)	6,946	(24,248)	(187,250)
Depreciation, amortization and non-cash comp	145,327	\$7,417	\$1,985	\$6,880	\$6,703	\$260,985	\$2,900	\$4,691	\$6,483	\$8,275	\$22,349	\$24,466
Total operating expenses	397,695	142,039	163,379	161,744	166,711	614,146	155,784	180,909	166,100	171,367	\$64,151	739,911
Operating income (loss)	(263,186)	(97,393)	(89,121)	(92,321)	(87,884)	(348,992)	(71,697)	(85,180)	(58,391)	(51,329)	(246,597)	(136,715)
Total other income (expense)	(12,275)	(8,347)	(13,217)	(14,216)	(22,215)	(68,695)	(23,382)	(24,726)	(26,018)	(27,253)	(101,379)	(116,873)
EBT	(275,461)	(96,340)	(103,338)	(106,537)	(110,099)	(407,587)	(95,079)	(89,906)	(84,409)	(78,582)	(347,976)	(253,588)
Income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net income before accretion	(275,461)	(96,340)	(103,338)	(106,537)	(110,099)	(407,587)	(95,079)	(89,906)	(84,409)	(78,582)	(347,976)	(253,588)
Accretion of redeemable preferred and warrants	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(275,461)	(96,340)	(103,338)	(106,537)	(110,099)	(407,587)	(95,079)	(89,906)	(84,409)	(78,582)	(347,976)	(253,588)
EPS	\$ (2.55)	\$ (8.87)	\$ (9.52)	\$ (9.34)	\$ (9.36)	\$ (9.58)	\$ (8.82)	\$ (8.77)	\$ (8.72)	\$ (8.47)	\$ (2.95)	\$ (2.13)
Diluted shares	107,920	111,839	112,857	113,704	114,836	113,114	115,547	116,263	116,982	117,707	115,942	118,848

*2001 results include \$1.1 million restructuring charges. **2002* results have been adjusted to reflect the impact of FAS 142.

Alliance Telecom, Inc.**Common Form Statements**

	2000A	1001A	2001A	3001E	4001A*	2001A*	1002E**	2002E**	3002E**	4002E**	2002E**	2003E
Revenue	287.5%	180.0%	180.8%	180.8%	180.8%	100.0%	100.0%	100.8%	100.0%	100.8%	180.0%	100.0%
Cost of services	240.8%	48.4%	49.0%	48.6%	48.7%	48.7%	48.2%	47.7%	47.2%	46.7%	47.4%	45.5%
Gross profit	47.2%	51.6%	51.8%	51.4%	51.3%	51.3%	51.8%	52.3%	52.8%	53.3%	52.6%	54.5%
Operating expenses:												
SG&A	88.6%	79.9%	73.7%	70.9%	66.5%	71.9%	63.4%	68.0%	63.7%	60.2%	55.7%	44.8%
EBITDA	-19.8%	-28.3%	-22.7%	-19.8%	-14.6%	-28.6%	-3.6%	-2.8%	-8.4%	1.3%	-3.1%	9.7%
Depreciation, amortization and non-cash comp	146.7%	54.2%	49.4%	42.8%	69.1%	46.9%	32.2%	28.5%	27.4%	25.6%	28.7%	22.1%
Total operating expenses	401.5%	361.5%	390.4%	411.7%	174.4%	118.8%	30.1%	31.1%	32.1%	33.2%	84.5%	66.9%
Operating income (loss)	-265.7%	-222.4%	-229.4%	-235.8%	-82.5%	-67.5%	-13.9%	-12.6%	-11.3%	-9.3%	-31.8%	-12.4%
Total other income (expense)	-4.3%	-8.5%	-10.7%	-10.5%	-14.6%	-11.3%	-14.4%	-13.5%	-12.8%	-12.1%	-13.1%	-10.6%
EBT	-278.1%	-245.2%	-263.8%	-271.2%	-115.9%	-78.9%	-18.4%	-17.4%	-16.3%	-15.2%	-44.9%	-22.9%
Income taxes	0.0%	0.0%	0.0%	0.0%	-115.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income before accretion	-278.1%	-245.2%	-263.8%	-271.2%	-115.9%	-78.9%	-18.4%	-17.4%	-16.3%	-15.2%	-44.9%	-22.9%
Accretion of redeemable preferred stock and warrant values	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	-278.1%	-245.2%	-263.8%	-271.2%	-115.9%	-78.9%	-18.4%	-17.4%	-16.3%	-15.2%	-44.9%	-22.9%

Source: Company Reports, Kaufman Bros.

*Kaufman Bros., L.P. makes a market in this security.

*Kaufman Bros., L.P. acted as an underwriter in a public offering of this security.

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KBRO 54

KBRO**ACTIONALERT****Allegiance Telecom, Inc.****Consolidated Statement of Operations / Earnings Model**

(\$ in thousands, except per share data)

	1998A	1999A	2000A	2001A*	2002**	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
Salespeople, end of period	295	707	1,333	1,584	1,534	1,659	1,684	1,709	1,734	1,759	1,784	1,809	1,834	1,859
Total lines sold	86,600	251,000	525,500	729,500	739,531	755,744	767,219	776,694	834,067	846,179	858,292	870,404	882,517	894,629
Cumulative lines sold	86,600	337,600	843,400	1,448,300	2,186,831	2,942,576	3,709,793	4,486,487	5,322,553	6,158,733	7,027,024	7,897,429	8,779,945	9,674,575
Lines installed	47,700	194,000	366,000	633,200	600,000	604,595	613,775	622,955	667,263	676,943	686,633	696,323	706,013	715,703
Cumulative lines installed	47,700	241,700	607,700	1,015,000	1,615,000	2,219,595	2,833,370	3,456,324	4,123,579	4,800,521	5,487,155	6,183,478	6,889,491	7,605,195
Average monthly revenue per line	\$ 51.17	\$ 60.52	\$ 57.68	\$ 48.27	\$ 49.30	\$ 48.05	\$ 47.10	\$ 46.16	\$ 45.24	\$ 44.33	\$ 43.44	\$ 42.58	\$ 41.72	\$ 40.89
Revenues	\$ 9,786	\$ 99,881	\$ 283,227	\$ 516,888	\$ 774,585	\$ 1,185,865	\$ 1,428,810	\$ 1,741,579	\$ 2,857,315	\$ 2,373,710	\$ 2,481,378	\$ 2,881,326	\$ 3,277,772	\$ 3,956,128
YoY growth		912.3%	187.6%	81.2%	49.9%	42.6%	29.1%	27.0%	19.1%	15.4%	13.0%	11.2%	9.8%	8.7%
Cost of services	9,525	82,542	150,718	251,734	387,031	502,609	631,207	746,208	857,938	980,209	1,051,267	1,131,469	1,201,188	1,260,710
Gross profit	261	36,519	134,589	265,154	407,554	683,256	798,603	995,370	1,999,377	1,413,500	1,430,111	1,749,857	2,076,584	2,695,418
Operating expenses														
SG&A	46,090	140,745	252,359	371,895	431,802	486,146	552,439	611,455	673,554	730,662	806,622	876,919	949,909	1,025,735
EBITDA	(45,832)	(104,226)	(117,839)	(106,741)	(84,248)	167,109	246,163	383,915	1,325,823	672,838	623,489	872,938	1,126,675	1,669,683
Depreciation, amortization and non-cash comp	181,622	82,482	145,277	280,995	222,349	244,465	273,025	307,866	312,611	300,725	305,081	336,040	379,380	421,842
Total operating expenses	227,454	223,207	358,095	614,146	656,151	739,911	825,464	919,321	986,175	1,039,806	1,111,703	1,212,959	1,320,269	1,447,581
Operating income (loss)	(217,454)	(186,688)	(243,506)	(346,892)	(248,597)	(136,702)	(88,851)	14,544	213,282	373,032	518,387	636,819	746,405	1,221,802
Total other income (expense)	(19,034)	(29,050)	(12,275)	(55,586)	(101,378)	(116,873)	(123,751)	(125,145)	(123,826)	(119,504)	(111,989)	(101,130)	(86,824)	(74,010)
EBT	(246,488)	(214,738)	(275,481)	(402,478)	(349,975)	(253,575)	(212,602)	(103,307)	89,456	253,528	406,398	535,689	659,581	1,147,792
Income taxes														
Net income before accretion	(246,488)	(214,738)	(275,481)	(402,478)	(349,975)	(253,575)	(212,602)	(103,307)	89,456	253,528	406,398	535,689	659,581	1,147,792
Accretion of redeemable preferred and warrants	(11,571)													
Net income	\$ (258,059)	\$ (214,738)	\$ (275,481)	\$ (402,478)	\$ (349,975)	\$ (253,575)	\$ (212,602)	\$ (103,307)	\$ 89,456	\$ 253,528	\$ 406,398	\$ 535,689	\$ 659,581	\$ 1,147,792
EPS	\$ (1.12)	\$ (2.38)	\$ (2.55)	\$ (3.68)	\$ (2.98)	\$ (2.13)	\$ (1.25)	\$ (0.41)	\$ 0.39	\$ 1.94	\$ 3.02	\$ 3.89	\$ 4.64	\$ 4.19
Diluted shares	75,466	90,255	107,570	113,114	117,542	119,840	121,811	124,857	127,578	131,177	134,457	137,818	141,264	144,795

*2001 results include \$1.7 million nonrecurring charges; **2002+ results have been adjusted to reflect the impact of T-AS 142

Allegiance Telecom, Inc.**Common Form Statements**

	1998A	1999A	2000A	2001A*	2002**	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
Revenues	100.0%	100.0%	287.9%	100.0%	100.0%	180.8%	180.0%	180.0%	180.0%	180.0%	180.0%	180.0%	180.0%	180.0%
Cost of services	97.4%	82.1%	53.1%	48.7%	47.4%	45.5%	44.2%	43.0%	41.7%	40.5%	39.2%	38.0%	36.7%	35.5%
Gross profit	2.6%	18.0%	47.2%	51.3%	52.6%	34.3%	35.8%	37.0%	38.3%	39.5%	40.8%	42.0%	43.3%	44.5%
Operating expenses:														
SG&A	47.1%	142.1%	88.5%	71.9%	66.7%	44.8%	38.7%	36.1%	32.7%	31.1%	30.1%	29.4%	28.0%	26.8%
EBITDA	468.3%	105.2%	119.8%	29.8%	3.1%	9.7%	17.1%	21.8%	25.6%	28.4%	30.7%	32.8%	34.3%	35.7%
Depreciation, amortization and non-cash comp	1865.9%	83.2%	146.7%	48.9%	26.7%	22.1%	18.1%	17.2%	16.2%	15.2%	14.4%	13.3%	11.5%	11.2%
Total operating expenses	2326.9%	225.3%	401.5%	118.8%	64.5%	66.9%	57.6%	52.6%	47.9%	43.6%	41.5%	40.7%	40.6%	40.7%
Operating income (loss)	2324.2%	188.5%	268.3%	47.5%	31.8%	12.4%	2.8%	4.3%	18.4%	15.8%	19.3%	21.4%	22.7%	23.8%
Total other income (expense)	-194.5%	-28.3%	-4.3%	-11.3%	-13.1%	-10.6%	-8.7%	-7.2%	-6.0%	-5.0%	-4.2%	-3.4%	-2.7%	-2.1%
EBT	2519.7%	216.8%	278.1%	78.9%	44.9%	22.9%	10.7%	2.9%	4.3%	18.7%	15.2%	18.9%	20.8%	21.8%
Income taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income before accretion	2519.7%	216.8%	278.1%	78.9%	44.9%	22.9%	10.7%	2.9%	4.3%	18.7%	15.2%	18.9%	20.8%	21.8%
Accretion of redeemable preferred and warrant values	-122.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	2641.1%	216.8%	278.1%	78.9%	44.9%	22.9%	10.7%	2.9%	4.3%	18.7%	15.2%	18.9%	20.8%	21.8%

Source: Company Reports, Kaufman Bros.

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KBRO 55

KBRO**ACTIONALERT**

Alliegence Telecom, Inc.
Discounted Cash Flow (DCF) Valuation
 (in thousands, except per share data)

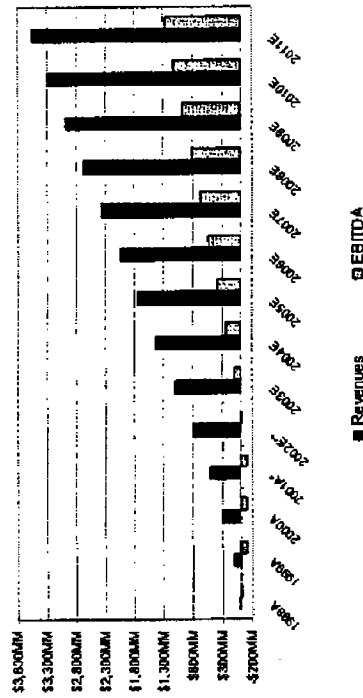
	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	Terminal Value
Unlevered free cash flow	\$ (239,246)	\$ (58,120)	\$ 30,163	\$ 121,310	\$ 217,216	\$ 318,562	\$ 421,537	\$ 525,741	\$ 630,780	\$ 397,161	\$ 6,698,674
Discount factor (DF)	1.00	1.15	1.32	1.52	1.76	2.02	2.33	2.68	3.08	3.55	3.55
Discounted cash flow	(239,246)	(50,495)	22,768	79,359	123,763	157,595	191,294	196,447	204,774	112,018	1,889,344
Sum of DCFs			2,677,718								
less estimated net debt			956,353								
Target private market value			\$ 1,711,334								
less 20% public / private discount			342,267								
Target public market value			\$ 1,369,067								

Target enterprise value:	\$ 2,335,451
Target EV / 2002E revenues:	3.0
Target EV / year-end 2002 line:	1,446

Estimated WACC:	15.1%
Estimated perpetual growth in FCF:	8.7%

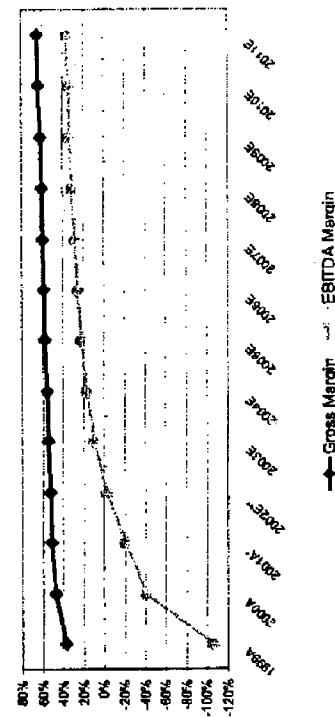
Source: Company reports; Kaufman Bros.

Total Revenue and EBITDA



Source: Company Reports; Kaufman Bros.

Gross Margin and EBITDA Margin



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KBRO 56

McDonald
Equity
Research

Providing Investment Strategies

Allegiance Telecom
March 1, 2002

**McDonald
Investments**



Equity Research
McDonald Investments Inc.

McDonald
Investments



Allegiance Telecom (ALGX-NASDAQ)

TOP CLEC CONTINUES TO EXECUTE, BUT WE MAINTAIN OUR *HOLD* RATING

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Rating: *HOLD (3)*
March 1, 2002

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Allegiance Telecom (ALGX-NASDAQ)

March 1, 2002
Earnings Review
Estimate Revision

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ALLEGIANCE TELECOM AT A GLANCE

Allegiance Telecom was founded in April 1997 and is headquartered in Dallas, Texas. Led by industry veteran Royce Holland, ALGX offers a full suite of voice, data, and Internet services with a focus on small and medium-sized enterprises (SMEs) in top-tier U.S. cities. The Company completed its 36-market network expansion efforts in 4Q01. ALGX is perhaps the leader of the "smart-build" approach, one which allows competitive providers to cost-effectively enter markets in a timely manner. ALGX also has one of the best back-office support systems in the sector, and is electronically bonded with all four major incumbent carriers. ALGX went public on July 1, 1998.

SUMMARY AND RECOMMENDATION

- ALGX posted another positive quarter with results falling just shy of expectations.
- The Company's reconciliation project has reduced line count by 125,000.
- We maintain our **HOLD (3)** rating on ALGX.

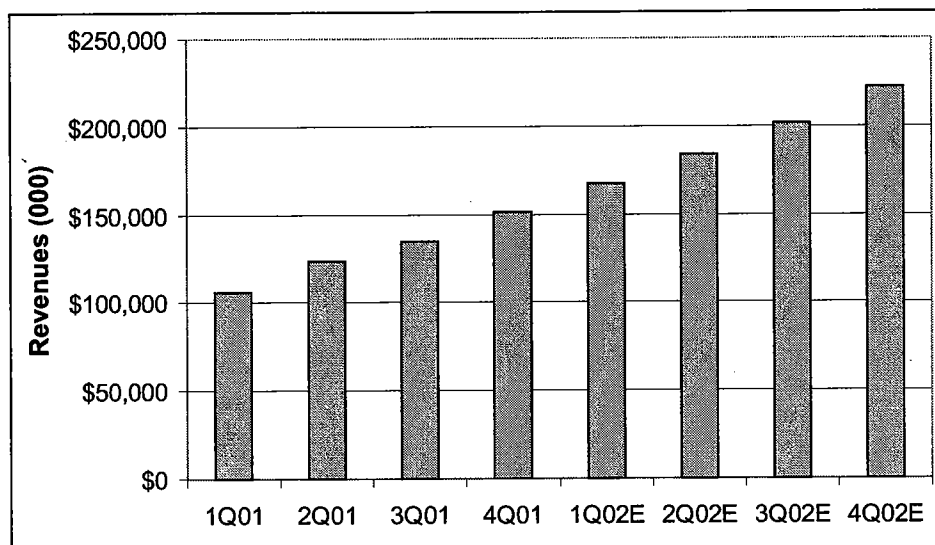
DISCUSSION

ALGX's 4Q01 revenue results fall slightly short of expectations. ALGX reported 4Q01 and full year 2001 results that fell slightly short of our expectations but were still considered positive in the current telecom environment. On the top line the Company posted 4Q01 revenues of \$151.8 million, up 12.3% sequentially and 59.8% year-over-year, but marginally below our \$154.6 million target. Of total revenues, voice (including long distance) accounted for \$97.5 million or 64.2%, and data/Internet represented \$54.4 million or 35.8%. Revenues for 4Q01 were driven by a 29.8% sequential increase in data/Internet sales. Access revenues as a percent of total revenues continued to decrease in 4Q01, falling to 12.2% in the quarter from 20.1% in 1Q01 and 12.6% last quarter. In 4Q01 ALGX sold 190,000 access lines, an increase of 4.4% over last quarter's 182,000 total, and installed 135,000 net lines, a 0.9% decrease over the same time period. Management indicated that the events of September 11th impacted sales numbers for September and, in turn,

Price	\$2.62
52 Wk Price Range	\$2 — \$24
Rating	HOLD (3)
Fiscal Year Ends	December
Book Value (12/31/01)	\$5.30
Dividend/Yield	\$0.00/0.0%
EV/EBITDA 2002E	NM
EPS 2002E	(\$3.72)
EPS 2001A	(\$3.82)
EPS 2000A	(\$2.56)
P/E 2002E	NM
P/E 2001A	NM
R.O.E.	NM
S&P500	1106.73
P/E S&P 500 LTM	29.4x
Headquarters	Dallas, Texas
Business	Telecom Services
Capitalization	12/31/01
Long-Term Debt (mils)	\$1,003.0
Shareholders' Equity (mils)	\$608.0
Shares Outstanding (mils)	114.8
Market Cap. (mils)	\$300.9
Closely Held	11%
Shares Traded (dly avg)	1,924,577

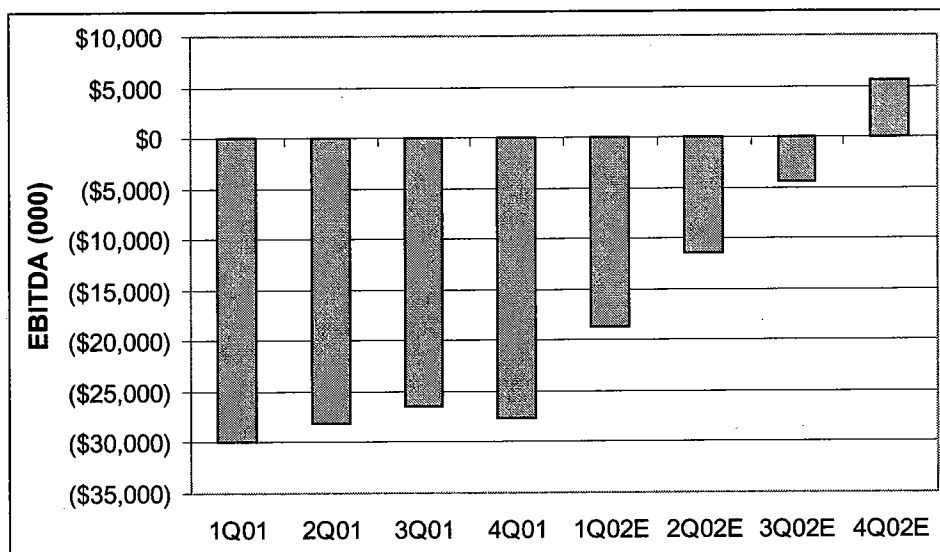
reduced the backlog of orders entering the quarter. For 2001, ALGX's revenues grew 81.2% to \$516.9 million.

Chart 1. ALGX REVENUE PROJECTIONS



Source: McDonald Investments and Company Reports

Chart 2. ALGX TO TURN EBITDA POSITIVE IN 4Q02

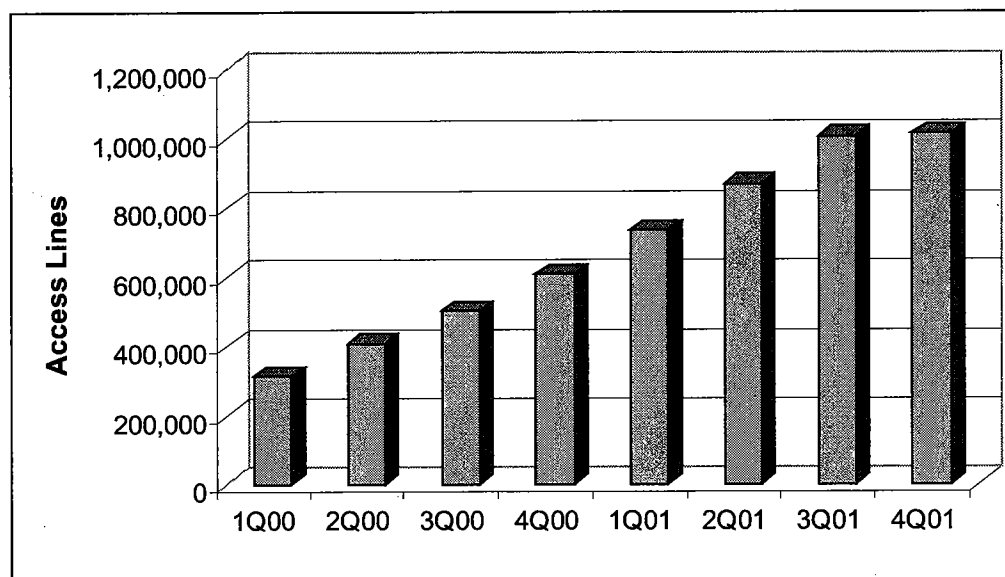


Source: McDonald Investments and Company Reports

EBITDA shortfall and interest expense impact bottom line. In terms of gross margin, the Company's 51.3% level for 4Q01 was in line with our estimates for the quarter, declining from last quarter's 51.4% level but improving from last year's 50.4% mark. Largely resulting from a \$5.5 million charge associated with its acquisition of the Internet assets of Worldcom's Intermedia Business, ALGX's EBITDA of \$(27.7) million for the quarter fell significantly short of our \$(20.9) million assumption. However, ALGX improved its pre-overhead positive markets from nine in 4Q00 and 14 in 3Q01 to 16 this quarter. The Company posted EBITDA of \$(112.2) million for 2001, a 4.8% increase over 2000. With the completion of its 36-market expansion plan, the Company now expects to shift its focus toward improving profitability and turning

EBITDA positive in 2H02. On the bottom line, ALGX recorded 4Q01 EPS of \$(1.09), falling short of our \$(0.96) estimate and the consensus of \$(0.97) due to the lower EBITDA level and a higher than expected interest expense. The Company saw its EPS slide from \$(2.56) in 2000 to \$(3.82) in 2001 due to the significant expansion in markets and services.

Chart 3. ALGX ACCESS LINE COUNT



Source: Company Reports

Management tackles covenant concerns. In light of negative investor sentiment concerning CLEC funding woes, management took time during the call to explicitly address its bank covenants. Specifically, the Company indicated that it has had no problems meeting its covenants, and our estimates point to the same conclusion. In terms of its revenue covenant, ALGX exceeded the 4Q01 and full year 2001 requirements by \$12 million and \$71 million, respectively. Management's revenue guidance of \$800 million (our conservative expectation is \$775 million) gives the Company some cushion over the \$755 million in revenues required in 2002. ALGX also met its \$400 million 2001 capital expenditure covenant by spending \$364 million on capex, while for 2002 the Company projects to come in well below the same requirement in the range of \$215 million-\$240 million. ALGX's senior secured debt of \$415 million vs. its \$2.8 billion capitalization gives it a senior secured debt to capital ratio of 0.15x, much better than the 0.35x covenant. Finally, the Company's \$1 billion in total debt to \$2.8 billion in capital ratio of 0.36x came in well below the 0.6x required by the covenant.

Table 1. REVENUE COVENANTS
(\$ in millions)

		1Q	2Q	3Q	4Q	FY
2001	Target	\$85	\$100	\$120	\$140	\$445
	Actual	\$105	\$124	\$135	\$152	\$517
2002	Target	\$155	\$180	\$200	\$220	\$755
	Our Estimate	\$167	\$184	\$202	\$222	\$775

Source: McDonald Investments and Company Reports

ALGX takes additional measures to improve its network and back-office system. During the quarter, ALGX added the Pittsburgh, Pa. and West Palm Beach/Boca Raton, Fla. markets to its footprint, thus completing the Company's 36-market expansion plan. With the addition of 17 new collocations in 4Q01, ALGX now maintains 789 central office collocations addressing 20 million business lines. Also during the

quarter, the Company increased its switches by one to 31 and lit metropolitan fiber rings in eight markets, bringing its markets served by fiber to 22. In terms of back-office initiatives, ALGX implemented the Single.eView electronic billing system in Pittsburgh, with plans to introduce the system for new customers on a market-by-market basis through 3Q02. Along with the development of automated billing processes, the Company has been conducting a reconciliation project in order to reconcile past discrepancies in its order management, provisioning, and billing databases. As part of the reconciliation process, the Company's access line count was adjusted downward by 125,000 to 1,015,000 lines in service. While from a purely operational perspective we are not alarmed by this adjustment, given the state of the market, such a revision could be viewed negatively as some sort of an accounting issue in this post-Enron/Global Crossing era.

Nine early markets continue to improve. Of the \$72.7 million in revenues generated by ALGX's nine earliest markets, local service produced \$45.1 million, long distance brought in \$3.4 million, and data accounted for \$24.2 million. Lines in service continued to improve from 425,380 in 1Q01 to 538,112 during the quarter, while the Company's gross margin increased from 59% to 61.5% over the same time frame. Additionally, ALGX's nine most mature markets reported pre-overhead EBITDA of \$20.2 million, for a 27.8% pre-overhead EBITDA margin. These markets currently address 9.1 million switched access lines and maintain a 5.9% penetration rate.

We are slightly adjusting our 2002 estimates. Accompanying its 4Q01 results, the Company reiterated its financial guidance for 2002. ALGX expects to grow its revenue base by 50% to \$800 million and to become cash flow positive in the 2H of the year. Additionally, during the year the Company expects to install 600,000 access lines, activate SONET fiber networks in two new markets, add 61 collocations, and incur \$215 million-\$240 million in capital expenditures. Considering ALGX's 4Q01 results and in an effort to be more conservative in a challenging environment for competitive carriers, we are taking this opportunity to revise our estimates for 2002. While our new EBITDA target has improved significantly from our previous expectation, our 2002 EPS estimate is impacted by more conservative D&A and interest expense assumptions. **For 2002, we now expect ALGX to produce \$775 million in revenues, \$(29) million in EBITDA, and \$(3.72) in EPS. Previously, we had projected the Company to generate 2002 revenues of \$789.1 million, EBITDA of \$(45.4) million, and EPS of \$(3.63).**

ALGX remains the one CLEC to consider. With very little hesitation, we believe that ALGX is the best run CLEC in the country and the one most capable of weathering the current brutal environment for competitive telecom operators. Already possessing a strong and conservative balance sheet, the Company continues to distance itself from its CLEC peers based on pure execution ability. Despite the poor economy, ALGX's 2001 results tracked more or less in line with management's internal expectations and with our forecasts, and we are optimistic that 2002 will show more of the same ability to grow the business. In terms of valuation, ALGX still trades at a very reasonable 1.4x last quarter annualized revenues, lower than its CLEC peers despite being the strongest company in the group, and lower than the RBOCs despite our forecast for nearly 50% revenue growth in 2002 vs. low single-digit growth for the larger incumbents. We maintain our **HOLD (3)** rating based solely on the current limited appetite for telecom stocks, particularly the competitive sector, as opposed to anything specific to ALGX. In short, while we are pleased with the Company's operational performance, the extra jittery state of the market precludes us from upgrading ALGX at this time. In addition, we reiterate that, while the line count reconciliation is a back-office issue and not an accounting issue, we believe that this adjustment could nonetheless rattle some investors in the near term given the intense scrutiny being placed on such matters.

Table 2. CONSOLIDATED STATEMENT OF OPERATIONS
(\$ in thousands, except per share amounts)

	12mos Dec-99	12mos Dec-00	3mos Mar-01	3mos Jun-01	3mos Sep-01	3mos Dec-01	12mos Dec-01	3mos Mar-02E	3mos Jun-02E	3mos Sep-02E	3mos Dec-02E	12mos Dec-02E
Revenues:												
Voice	91,195	228,312	78,347	86,717	93,245	97,467	355,776	108,550	119,405	131,346	144,480	503,781
Data/Internet	7,866	56,915	27,527	37,342	41,892	54,351	161,112	58,450	64,295	70,725	77,797	271,266
TOTAL REVENUES	99,061	285,227	105,874	124,059	135,137	151,818	516,888	167,000	183,700	202,070	222,277	775,047
Cost of service	62,542	150,718	51,228	60,801	65,714	73,991	251,734	80,494	86,706	93,356	98,913	359,469
Gross Margin	36,519	134,509	54,646	63,258	69,423	77,827	265,154	86,506	96,994	108,714	123,364	415,578
SG&A	140,745	252,368	84,622	91,394	95,864	105,508	377,388	105,210	108,383	113,159	117,807	444,559
EBITDA	(104,226)	(117,859)	(29,976)	(28,136)	(26,441)	(27,681)	(112,234)	(18,704)	(11,389)	(4,445)	5,557	(28,981)
Management ownership allocation charge	18,789	4,592	0	0	0	0	0	0	0	0	0	0
Deferred compensation	7,851	4,020	0	0	0	0	0	0	0	0	0	0
Depreciation & amortization	55,822	136,715	57,417	61,985	65,880	75,703	260,985	76,266	78,255	80,307	82,419	317,246
EBIT	(186,688)	(263,186)	(87,393)	(90,121)	(92,321)	(103,384)	(373,219)	(94,970)	(89,644)	(84,752)	(76,862)	(346,227)
Interest income	31,354	56,969	7,048	3,181	4,508	927	15,664	1,500	1,500	1,500	1,500	6,000
Interest (expense)	(59,404)	(69,244)	(15,995)	(16,398)	(18,724)	(23,142)	(74,259)	(24,000)	(24,000)	(24,000)	(24,000)	(96,000)
Other income (expense)	(130)	0	0	0	0	0	0	0	0	0	0	0
EBT	(214,868)	(275,461)	(96,340)	(103,338)	(106,537)	(125,599)	(431,814)	(117,470)	(112,144)	(107,253)	(99,362)	(436,227)
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (before extraordinary item)	(214,868)	(275,461)	(96,340)	(103,338)	(106,537)	(125,599)	(431,814)	(117,470)	(112,144)	(107,253)	(99,362)	(436,227)
Income tax benefit	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary item	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	(214,868)	(275,461)	(96,340)	(103,338)	(106,537)	(125,599)	(431,814)	(117,470)	(112,144)	(107,253)	(99,362)	(436,227)
Preferred dividend	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss) to common	(214,868)	(275,461)	(96,340)	(103,338)	(106,537)	(125,599)	(431,814)	(117,470)	(112,144)	(107,253)	(99,362)	(436,227)
EPS (Diluted, including extraordinary item)	(\$2.37)	(\$2.56)	(\$0.87)	(\$0.92)	(\$0.94)	(\$1.09)	(\$3.82)	(\$1.01)	(\$0.96)	(\$0.91)	(\$0.84)	(\$3.72)
EPS (Extraordinary item)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EPS (Diluted, excluding extraordinary item)	(\$2.37)	(\$2.56)	(\$0.87)	(\$0.92)	(\$0.94)	(\$1.09)	(\$3.82)	(\$1.01)	(\$0.96)	(\$0.91)	(\$0.84)	(\$3.72)
EBITDA per Share	(\$1.15)	(\$1.09)	(\$0.27)	(\$0.25)	(\$0.23)	(\$0.24)	(\$0.99)	(\$0.16)	(\$0.10)	(\$0.04)	\$0.05	(\$0.25)
Weighted average diluted shares	90,736	107,773	111,059	112,857	113,704	114,836	113,116	115,836	116,836	117,836	118,836	117,336
Gross margin (% of revs)	36.9%	47.2%	51.6%	51.0%	51.4%	51.3%	51.3%	51.8%	52.8%	53.8%	55.5%	53.6%
SG&A (% of revs)	142.1%	88.5%	79.9%	73.7%	70.9%	69.5%	73.0%	63.0%	59.0%	56.0%	53.0%	57.4%
EBITDA (% of revs)	-105.2%	-41.3%	-28.3%	-22.7%	-19.6%	-18.2%	-21.7%	-11.2%	-6.2%	-2.2%	2.5%	-3.7%
EBIT (% of revs)	-188.5%	-92.3%	-82.5%	-72.6%	-68.3%	-68.1%	-72.2%	-56.9%	-48.8%	-41.9%	-34.6%	-44.7%
Tax (% of EBT)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (% of revs)	-216.9%	-96.6%	-91.0%	-83.3%	-78.8%	-82.7%	-83.5%	-70.3%	-61.0%	-53.1%	-44.7%	-56.3%

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Table 3. COMPETITIVE LOCAL EXCHANGE CARRIERS

Company	Symbol	Rating (3)	Price 2/28/02	Change From		50-Day Average Volume (Shares)	Ownership		Earnings Per Share (2)			
				52-Week High	52-Week Low		Insiders	Institutions	Fiscal 2000	Fiscal 2001E	Fiscal 2002E	
Adelphia Business Solutions	ABIZ	NR	\$0.08	\$6.09	\$0.05	2,517,078	79%	5%	(\$4.93)	(\$3.33)	(\$2.99)	
Allegiance Telecom	ALGX	3	\$2.62	\$24.25	\$1.88	1,487,654	11%	63%	(\$2.56)	(\$3.82)A	(\$3.72)	
Choice One	CWON	3	\$1.45	\$10.50	\$1.03	173,912	75%	46%	(\$7.11)	(\$7.23)A	(\$4.52)	
Focal	FCOM	NR	\$0.22	\$14.75	\$0.21	360,288	74%	6%	(\$1.75)	(\$2.80)	(\$0.46)	
ITC Deltacom	ITCD	NR	\$0.28	\$8.06	\$0.26	400,896	47%	27%	(\$1.36)	(\$2.14)	(\$1.87)	
McLeodUSA	MCLD	NR	\$0.18	\$17.06	\$0.15	14,745,672	37%	31%	(\$0.91)	(\$1.19)	(\$1.36)	
Mpower	MPWR	NR	\$0.04	\$5.21	\$0.04	998,124	61%	29%	(\$5.20)	(\$8.81)	(\$3.90)	
RCN Corporation	RCNC	NR	\$1.31	\$10.43	\$1.01	514,002	71%	28%	(\$10.24)	(\$9.20)	(\$7.97)	
Time Warner Telecom	TWTC	NR	\$5.70	\$72.00	\$5.50	697,956	64%	33%	\$0.01	(\$0.84)	(\$1.29)	
US LEC	CLEC	NR	\$4.67	\$9.37	\$2.16	69,418	21%	8%	(\$1.85)	(\$2.68)	(\$2.41)	
XO Communications	XOXO	NR	\$0.07	\$16.94	\$0.03	19,439,120	54.6%	18%	(\$4.24)	(\$4.55)	(\$4.06)	
AVERAGE						3,764,011	54.6%	26.7%				
ADJUSTED AVG.						3,764,011	54.6%	26.7%				

Company	Capitalization (1)					Total Enterprise Value Multiples			
	Shares Outstanding (MM)	Equity Market Cap. (\$MM)	Long-Term Debt (\$MM)	Cash & Equiv. (\$MM)	Enterprise Value (TEV) (\$MM)	Latest Qtr. Annualized Revenues (\$MM)	Net PP&E (\$ million)	Installed Access Lines (4)	Latest Qtr. Annualized Revenues
Adelphia Business Solutions	135.5	10.8	1,654	19.4	1,645.8	465.1	1,672	NA	3.5x
Allegiance Telecom	113.7	297.9	983.2	537.6	743.5	540.5	1,002	1,005,900	1.4x
Choice One	39.6	57.4	684.9	69.6	672.7	195.2	338	295,319	3.4x
Focal	61.4	13.5	606.2	6.6	613.2	340.5	465	652,648	1.8x
ITC Deltacom	62.4	17.5	717.4	57.1	677.8	409.9	702	275,600	1.7x
McLeodUSA	625.5	112.6	3,694.0	67.0	3,739.6	1,801.9	2,681	NA	2.1x
Mpower	59.5	2.4	623.4	265.6	360.2	199.2	394	359,236	1.8x
RCN Corporation	97.3	127.5	2,469.5	1,131.9	1,465.1	546.7	2,301	1,202,784	2.7x
Time Warner Telecom	114.3	651.7	1,064.8	380.1	1,336.5	690.9	1,799	16,216,000	1.9x
US LEC	26.8	125.4	150.0	69.8	205.6	183.9	190	222,127	1.1x
XO Communications	428.7	31.7	5,111.2	1,030.8	4,112.1	1,325.9	3,735	18,650,000	3.1x
AVERAGE	160.4	131.7	1,614.5	330.5	1,415.6	609.1			2.2x
ADJUSTED AVG.	160.4	131.7	1,614.5	330.5	1,415.6	609.1			2.2x

(1) Balance sheet figures and operating results are as of last 10-Q, 10-K or Prospectus.

(2) FY01 and FY02 EPS figures for ABIZ, ALGX, CWON, MCLD, MPWR, and XO are McDonald estimates. All other estimates are from First Call.

(3) Rating system is: 1=Aggressive Buy, 2=Buy, 3=Hold, 4=Underweight, 5=Sell and NR=not rated.

(4) Access lines, access line equivalents, DS-O equivalents, total connections, or active channels depending on reporting methodology.

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and resulted in a downward adjustment to lines in service of 125,000. We do not anticipate
ALGX making further material adjustments to its line base in the future.

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Equity Research

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Telecom Services: CLECs

6 February 2002

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APPENDIX II.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source	Event
1/2/2001	1,250,800	\$ 21.25				
1/3/2001	4,105,300	\$ 29.25	37.6%		CIBC World Markets (CIBC)	Telecom Services. 2001 industry update: sector will remain volatile; proceed with caution. Competitive Local Exchange Carriers (CLECs) a positive in 2001.
1/4/2001	7,706,700	\$ 31.00	6.0%			
1/5/2001	3,660,500	\$ 31.50	1.6%		ABN AMRO Global Research (ABN)	<i>Allegiance: where to find growth in a upbeat market outlook.</i>
1/8/2001	2,064,000	\$ 30.31	-3.8%		CIBC	Telecom Services: CLECs. Updating our 2001 CLEC outlook: who will survive the shakeout?
1/9/2001	2,698,900	\$ 33.25	9.7%			
1/10/2001	5,896,800	\$ 38.88	16.9%		The Buckingham Research Group (Buckingham)	Initiating coverage with a Strong Buy and \$75 price target. Allegiance, founded in 1997, has moved quickly to become a major CLEC. Has one of savviest management teams in telecom industry. While EBITDA negative overall, company's older markets are EBITDA positive and achieving about 60% gross margins. When company turns EBITDA positive in mid-2002, believe scale up is likely to have hockey stick characteristics. Higher margined data business also becoming greater part of mix. Many issues that have bedeviled other CLECs not present here. Total lines installed increased to 91,900 from 81,000 at end of 2Q; project lines installed to reach about 100,000 by end of 4Q and total of 500,000 for 2001. Allegiance well financed. Allegiance is "best of breed" in CLECs.
1/11/2001	5,248,300	\$ 40.00	2.9%		RBC Capital Markets	<i>Downgrading Allegiance to Neutral following 73% price appreciation.</i>
1/12/2001	4,304,400	\$ 33.00	-17.5%		First Union Securities (First Union)	Lowering rating to Buy from Strong Buy; tempering long term access revenue. Price target lowered from \$50 to \$46. Valuation and limited operating visibility for 2001 warrant tempered enthusiasm at current price levels. Continue to believe Allegiance shares will outperform the broader telecom universe given the company's fully funded business plan, strong management team and history of execution.
1/16/2001	1,658,500	\$ 37.00	12.1%			
1/17/2001	1,126,500	\$ 36.31	-1.9%		CIBC	Telecom Services. CLEC 4Q outlook: solid results expected, but watch the trends. Allegiance rated Strong Buy.
1/18/2001	1,439,100	\$ 36.50	0.5%		Credit Lyonnais Securities (CLS) (aka Caylor Securities)	Allegiance Telecom is expected to report 4Q00 results during the first or second week of February. We are looking for 4Q00 revenue of \$950 million and adjusted EBITDA of negative \$30 million, driven by 99,787 net line installs. On a 4Q00 conference call, expect the company will update guidance for 2001, including a discussion of the pricing environment, status of its 36-market expansion plan, web/e-commerce initiatives with Vulcan Ventures and progress of its recent small acquisitions. Allegiance remains one of the most solidly funded CLECs in the industry with an estimated \$630 million of unrestricted cash at the end of 4Q00. Company retains flexibility with regards to accelerating or expanding its strategy, or attaining profitability with its current plan. Maintain Buy rating and our 12-month stock price target of \$53.
1/19/2001	1,148,800	\$ 35.69	-2.2%			
1/22/2001	2,117,800	\$ 34.63	-3.0%		CIBC	(Cont'd) Looking for 4Q00 revenue of \$95.4 million up 19.2% from \$80.0 million in 3Q00, and adjusted EBITDA of negative \$30 million versus negative \$31.7 million in 3Q00, driven by 140,141 line sales and 99,787 net line installs up from 135,500 and 81,100, respectively, in 3Q00. Our loss estimate is \$0.73 per share. Capital spending for the quarter is estimated at approximately \$107 million. For full year 2000, we are looking for revenue of \$285.6 million up 188% from \$99.1 million in 1999, adjusted EBITDA of negative \$118 million versus \$104.2 million in 1999, total line sales of 494,041 versus 251,000 in 1999 and net adds of 345,387 versus 194,000 in 1999. Our loss estimate for the year is \$2.52 per share, versus a loss of \$2.37 per share in 1999. Capital spending for the year is forecast at approximately \$450 million. Company ended year offering service in 27 markets, up from 19 markets at end of 1999.
1/23/2001	1,269,600	\$ 34.94	0.9%			
1/24/2001	865,200	\$ 34.50	-1.3%			
1/25/2001	1,227,500	\$ 32.25	-6.5%			
1/26/2001	1,658,800	\$ 30.00	-7.0%		JP Morgan	Top CLEC pick is Allegiance with Strong Buy and \$80 price target.
1/29/2001						
1/30/2001						
1/31/2001						
2/1/2001						
2/19/2001						
1/29/2001	2,035,800	\$ 31.31	4.4%		KeyBanc Capital Markets (KeyBanc)	<i>Initiating coverage of Allegiance with a Buy rating.</i>
1/30/2001	1,169,500	\$ 34.31	9.6%		Merrill Lynch (ML) Wachovia Securities (Wachovia)	Telecom Services - CLECs; emerging broadband group: 2001 outlook and 4Q prev. Initiating coverage with a rating of Buy with \$42.50 price target. Believe Allegiance is the best-positioned CLEC serving the small-business market. Company has strong history of excellent results and experienced management team. Has fully funded business plan. Forecasting 4Q revenue of \$95 million; EBITDA loss of \$30.4 million; EPS is loss of 78 cents.
1/31/2001	2,022,000	\$ 33.25	-3.1%			
2/1/2001	1,313,100	\$ 32.38	-2.6%			

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source	Event
2/2/2001	793,100	\$ 28.63	-11.6%			
2/5/2001	1,032,200	\$ 29.63	3.5%	10:05	Bloomberg News (BN) RBC Capital Markets (RBC)	Allegiance raised to Buy from Neutral at Dain Rauscher Wessels; price target is \$38. <i>Upgrading to Buy; anticipate strong 4Q results; \$38 price target.</i>
2/6/2001	700,100	\$ 30.50	3.0%			
2/7/2001	955,700	\$ 28.56	-6.4%			
2/8/2001	1,184,600	\$ 28.00	-2.0%	13:52	BN	Royce Holland, chairman and chief executive of Allegiance Telecom talks with Bloomberg analyst on growth outlook of Allegiance.
2/9/2001	1,878,000	\$ 25.06	-10.5%		SEC	Form 4 filed re: Morgan Stanley for period ending Oct. 31, 2000.
2/12/2001	1,690,100	\$ 26.50	5.7%		Wachovia	Initiated coverage of Allegiance with a Buy rating and price target of \$42.50. Recent pullback in shares offers an attractive entry point.
2/13/2001	2,393,000	\$ 24.75	-6.6%	17:58	PR Newswire (PRN)	Allegiance announces robust 4Q and strong year-end results with annual growth of 188%. 4Q revenues were \$95 million, up 19% from 3Q00 and 142% compared with 4Q99. Net loss per share was 77 cents compared to a 62-cent loss in 4Q99. New installs of 108,000 lines and new orders of 152,000 lines during 4Q in 27 markets. Allegiance has installed 607,700 lines to date, 90% are "on switch." Allegiance's 36-market business plan is fully funded.
				17:59	PRN	Allegiance Telecom debuts national carrier class dial-IP platform applying soft switch technology.
				18:00	PRN	Allegiance adds CTSnet as subsidiary; terms of deal not disclosed.
				18:02	PRN	Allegiance adds Jump.net as subsidiary; terms of deal not disclosed.
					Bear Stearns (BS) BS	Allegiance to report earnings tomorrow; host conference call at 9:00 am ET.
					First Union	ALGX, EPS, 9:00 am; upcoming catalyst on 2/14. FC (\$0.70), FC Rev \$96.3M. Release on 2/13 after market close.
						Allegiance Telecom reports Q4 results in line with expectations. Expect to have further details after 9:00 am Conference Call. Rated Buy with \$46 price target.
					SalomonSmith Barney (SSB)	4Q00 and 01 guidance in-line; revenue mix improves. Allegiance rated Buy, Speculative with \$70 price target.
2/14/2001	4,067,300	\$ 21.94	-11.4%	0:57	BN	Allegiance said it lost 77 cents a share in 4Q00; average estimate of analysts was a 70-cent loss. Company remains funded to free cash flow positive; expect EBITDA positive middle of 2002. Allegiance ended year on very strong note.
				10:06	BN	Allegiance was reiterated Buy at Gerard Klauer Mattison.
				10:32	BN	Allegiance was reiterated Buy at Dain Rauscher Wessels; price target is \$38.
					BS	Allegiance reported 4Q00 results before the market opened on February 14, 2001. Company delivered a strong performance in 4Q00 that was essentially in line with our estimates for aggressive financial and operational growth coupled with a sequential improvement in the company's EBITDA losses. With 18.7% sequential revenue growth, 108,000 access line installations, and an 812-basis point sequential improvement in its EBITDA margin, this quarter's results clearly show that Allegiance is successfully demonstrating "proof of concept" in its business model. On the heels of such a strong 4Q00 performance, Allegiance's management reaffirmed its previous guidance for 2001. Company expects to post revenue of \$550 million and access line installations of 550,000 while continuing to post sequential improvements in EBITDA during the course of 2001. Believe that Allegiance has established a successful and truly scalable model that will enable it to pass the 1 million access line mark by year-end 2001. Reiterate Buy rating.
					CIBC	Allegiance reported 4Q results after close last night which were generally at low end of guidance and below Street expectations. Despite relatively weak quarter, still confident that ALGX's strong management team, data-focused strategy and fully funded business model can help it survive current shakeout. Rated Strong Buy.
					CIBC	Allegiance held conference call this morning to discuss 4Q results. Company gave detailed guidance for 2001; have adjusted our model which was a bit too optimistic. Concerned with degree to which guidance appears to be backend loaded. Believe additional bad news likely to come out of CLEC group. We are lowering revenue estimate from \$570 to \$550 million, in line with company guidance; raised EBITDA loss from \$70 to \$100 million.
					First Union	Q4 conference call yields no surprises; maintain Buy rating and price target of \$46. Believe 2001 revenue estimate of \$550 million is achievable. Line installations ahead of estimate, offset by lower ARPU; expect trend to continue in 2001.
					Lehman Brothers (Lehman)	4Q00 results fell short of our expectations but were in line with guidance; lowering 1Q01 and 2001 revenue estimate from \$114M to \$105M and from \$560M to \$550M, respectively. Installed lines added in 4Q were 108,000, well ahead of our 100,000 estimate. Lowering somewhat outdated \$66 price target to \$45; maintain Buy.
					RBC	<i>Analyst report.</i>
					SSB	Allegiance 4Q and 2001 guidance in-line; revenue mix improves. Buy, Speculative rating with \$70 price target. Lowered 2000 loss of \$2.43 to \$2.56; lowered 2001 from \$2.62 to \$2.95 due to below the EBITDA line items changing from our previous published model. Believe year ended on a very strong note.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
2/15/2001	2,608,600	\$ 22.44	2.3%		9:09	BN
					11:02	BN
					11:39	BN
					11:42	PRN

Event

Allegiance reported strong 4Q results that beat our expectations; reiterate Buy rating and \$42.50 price target. Maintaining our estimates until after this morning's conference call. Allegiance has the right products for the right market; a proven track record; a fully funded business plan and very attractive balance sheet relative to the industry. Revenue guidance for 2001 slightly better than our current estimate.

Allegiance raised to Strong Buy from Buy at Wachovia; price target is \$42.50.
Allegiance was reiterated short-term and long-term Strong Buy at Hibernia Southcoast Capital; price target is \$55.

Allegiance was reiterated Buy at Robertson Stephens.
Robertson Stephens analyst said that Allegiance's "revenues increased 19% sequentially to \$95.0 million in Q4 2000, in line with our estimate of \$95.6 million...data revenues increased to 26.4% of total revenues in the fourth quarter versus 21.3% in Q3 2000. The company re-confirmed its 2001 revenue guidance of \$550million. Allegiance story remains unchanged and intact. Allegiance continues to gain market share, up to 4% of addressable lines in some markets, and we expect strong growth to continue as the company launches 9 new markets in 2001, increases share in existing markets, and continues to ramp up data services. Believe that Allegiance shares are significantly undervalued at current levels and reiterate our Buy rating."

CLS

Allegiance reported in line 4Q financial results; Rated Buy. Allegiance Telecom reported 4Q00 revenue and EBITDA of \$95 million and negative \$29.9 million, in line with our forecasts of \$95.4 million and negative \$30.0 million, respectively, driven by strong growth in data services which offset declining rates for intercarrier compensation local access and reciprocal compensation. Net line installs at 108,000 in the quarter were higher than our estimate of 99,787 installs, benefiting in part from an undisclosed base of access lines acquired from two small ISP acquisitions at the end of the quarter. The ISP acquisitions closed in late December and had a negligible impact on 4Q00 financial results. Company's balance sheet remains one of the strongest among its peers, with \$671 million cash and an unused credit line of \$500 million at the end of 4Q00. Its strong cash position leaves the company with flexibility to expand its 36-market entry plan or to make small opportunistic acquisitions.

(Cont'd) Allegiance reaffirmed 2001 revenues at \$550 million and an EBITDA margin in the negative teens, with EBITDA-positive still targeted for 2002. The company increased its target for 2001 net line installs to 550,000, versus our previous forecast for 448,040 net installs. Allegiance's target for 2001 capital spending increased to \$350 million from \$320 million, related to its increased net Install line target and perhaps in part related to cash payouts related to recent acquisitions. Pending a more thorough review of our model, we are maintaining our 2001 revenue and EBITDA forecasts of \$540.4 million and negative \$104.6 million, respectively. Maintain our Buy rating on ALGX's stock with a 12-month stock price target of \$53.

ALGX - strong operational trends continue; business extremely healthy.

Strong 4Q results; stock oversold; maintain Buy rating.

Yesterday conference call Allegiance reported strong net line additions and EBITDA improvement. 4Q net line adds 108,000 a 17.5% improvement over 3Q00. Announced acquisition CTSnet and Jump.net. Rated Buy with price target \$50.

Modestly raising estimates. Reiterate Buy-Aggressive rating.

Analyst report.

Hibernia Southcoast
Capital (Hibernia)
KeyBanc
Raymond James
RBC
Robertson Stephens (RS)

UBS

Wachovia

ALGX: (Strong Buy, \$85 price target.) solid 4Q00 results cap strong year. During conference call, Allegiance maintained its financial guidance for 2001 of \$550M revenue and installation of 500,000 new access lines.

Raising rating to Strong Buy for capital gains/higher-risk accounts from Buy; price target remains \$42.50 per share, representing upside of more than 90% from current levels. Remain confident in the company's business plan and Allegiance's ability to continue meeting or beating our expectations. Believe the recent decline in share price is unwarranted and believe it presents an excellent opportunity for investors to pick up shares in one of the very best CLECs in the industry. Raising our rating due to: company achieved revenue in line with its guidance; reported 4Q revenue of \$95.0 million versus \$39.3 million a year ago up 142%, in line with our estimate and company's previous guidance. EBITDA was a loss of \$29.9 million, just ahead of our estimate for a loss of \$30.4 million. Believe a number of analysts had chosen to issue revenue and EBITDA estimates above the company's guidance. Company had said it expected revenue of \$95.0 million and a sequential improvement in EBITDA loss; met both of those estimates. Believe recent pullback in share price represents a very attractive buying opportunity.

Stephens

2/16/2001 1,355,700 \$ 20.13 -10.3%

BN

2/19/2001 1,936,100 \$ 19.13 -5.0%

Allegiance reported a pretty good 4Q00 on Wednesday, and we still consider ALGX to be one of the likely survivors in the CLEC sector. While we continue to need evidence that the Company can sell other uses of its digital lines, we are warming up toward this name. If the stock moves below \$20 per share, we would be inclined to become more positive.

Allegiance raised to Strong Buy from Buy at Kaufman; price target is \$50.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
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Event

Raising our 12-month stock price target for Allegiance Telecom to \$84 per share from \$75 per share previously. The target represents an enterprise value multiple of 30x estimated 2005 EBITDA of \$728.5 million, discounted 17%. This effectively translates into a 13.9x multiple on our estimate of the company's 2005 EBITDA of \$6.05 per share, which is projected to grow by about 77% over the prior year. Given lower interest rates, we have also reduced our discount factor from 19% to 17%. The 4Q00 earnings that were reported last week indicated that ALGX was closer to EBITDA breakeven than we had previously anticipated. While revenues met our targets, the EBITDA deficit of \$30 million was some \$6 million smaller than we had previously thought, increasing our confidence in the company's ability to become EBITDA positive in 2002 and also increasing our total EBITDA estimates slightly. Finally, Allegiance appears to be moving from its "smart build" structure to a facilities-based structure more rapidly than we had believed possible, making the shares even more attractive. Rated Strong Buy.

2/21/2001 1,747,800 \$ 19.38 1.3%

Kaufman

4Q00 results prove business model is both scalable and profitable. Yesterday, we upgraded ALGX to Strong Buy from Buy upon a thorough analysis of company's strong 4Q00 results, which hit or beat all relevant line items, and in light of recent share price weakness, which we believe has been driven by earnings warnings at major technology companies, such as Nortel; execution and funding issues at other carriers that have compressed multiples in the sector; fears over a pro-RBOC Republican-led FCC thwarting growth for the CLECs; and concerns over a hard landing in U.S. economy. Year-end price target remains \$50. First, we note that emerging telcos with single-digit percentage market share like ALGX are typically unaffected by economic slowdowns. Second, we note that the turmoil of equipment companies is mildly positive for CLECs like ALGX, since the performance of equipment providers lags the performance of service providers and because market pressures give well funded carriers like ALGX buying power over their suppliers.

(Cont'd) Third, believe that a pro-business FCC could turn out to be positive for service providers, in that when it gains traction it could enable big-cap telcos to pursue acquisitions of RBOCs, IXCs, PTTs and CLECs. During the 2001, expect ALGX to complete Phase II of its 36-market build-out, including the addition of nine new markets. Look for declining EBITDA losses throughout 2001 that should result in EBITDA losses, as a percentage of revenues, of half of 4Q00 levels of (31.5%) by year-end. Note ALGX's incremental gross margins and EBITDA margins in its core markets of 57% and 42%, respectively, and 4Q00 triple-digit revenue growth and high double-digit SG&A growth as evidence that the company's model is bearing fruit in a significant way. Look for company to add 560,000 local lines in 2001 and achieve an annualized run rate in revenues approaching \$700 million in 4Q01; anticipate ALGX will turn EBITDA positive in 2002.

2/22/2001 4,178,500 \$ 20.31 4.8%

Fitch

Credit Update.

2/23/2001 3,149,200 \$ 19.63 -3.4%

BN

Allegiance raised to Strong Buy at Robertson Stephens from Buy; price target is \$29. Believe that the CLECs will gain a 30%-plus share of the \$124 billion local telecom market in the US over the next decade, up from 5% -7% today. Believe Allegiance is one of the best positioned CLECs because it: (1) operates in a segment of the business market where there is less competition -- the RBOCs and most national CLECs are focusing up market; (2) has a network architecture and strong back office that is scalable -- 108,000 lines were added in Q4 2000; (3) has one of the strongest balance sheets in the industry; and (4) has a strong management team that executing on its business plan. Expect Allegiance to turn EBITDA positive in the 2H02 and net income positive in 2004.

2/26/2001 4,719,800 \$ 20.94 6.7%

PRN

(Cont'd) Believe that Allegiance is fully funded to free cash flow breakeven in 2004. Estimate that company has a \$108 million surplus in the business plan; estimate company is still fully funded. Upgrading rating to Strong Buy from Buy based on valuation and belief that market is overlooking the company's strong underlying growth and high steady-state returns on equity. Downside DCF valuation, which assumes a lower terminal EBITDA multiple and that the company misses its revenue numbers by 10% every year, yields a 12-month price target of \$29 per share.

2/27/2001 1,530,300 \$ 20.50 -2.1%

RS

Analyst report.

2/28/2001 2,995,400 \$ 20.25 -1.2%

BN

Allegiance rated new Buy at Fahnstock; 12-month price target is \$32.

3/1/2001 1,538,800 \$ 20.13 -0.6%

PRN

Allegiance Telecom options will open on the Pacific Exchange on Wednesday, February 28, and trade on the March expiration cycle under ticker QGX. Position and exercise limits have been set at 75,000 contracts.

Fahnstock
Fahnstock

ALGX: initiating coverage; price target \$32.

Analyst report.

2/28/2001 2,995,400 \$ 20.25 -1.2%

Fitch (FIT)

Fitch's Corporate Finance group published a Credit Update report on Allegiance.

3/1/2001 1,538,800 \$ 20.13 -0.6%

BN

Allegiance was reiterated Buy at Sanders Morris Harris; price target is \$50.

3/1/2001 1,538,800 \$ 20.13 -0.6%

BN

Microsoft Corp. co-founder Paul Allen's personal investment company (Vulcan Ventures) sold all of its stake in Allegiance Telecom. Insiders such as Lord and Chief Executive Royce Holland still own more than 30 percent of the company's shares, Lord said. Allegiance had \$285 million in sales last year and expects at least \$550 million this year. Vulcan Ventures filed with the SEC on Feb. 16 to sell 2 million shares on Feb. 20. Vulcan sold 1.5 million shares of Allegiance on the open market at \$26.75 each on Oct. 31, according to an SEC filing; sales totaled \$40.1 million.

Vulcan has filed the intent to sell all of its Allegiance stock.

2/28/2001 2,995,400 \$ 20.25 -1.2%

BN

Allegiance was reiterated Buy at Sanders Morris Harris; price target is \$50.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source	Event
3/2/2001	1,267,200	\$ 19.31	-4.0%		13:28	BN <i>Fahnestock</i>	Allegiance's CFO Tom Lord speaks with Bloomberg analyst about its business, lines installed and credit/debt issues. <i>ALGX: upbeat presentation at Bloomberg Conference.</i>
3/5/2001	685,500	\$ 20.81	7.8%		9:00	PRN	Allegiance Telecom introduces service in San Antonio, TX, its 28th market. To date, the company has installed over 600,000 lines for business customers nationwide.
3/6/2001	1,550,000	\$ 23.31	12.0%			Credit Suisse First Boston (CSFB)	Telecom Services - CLECs. Highlights from CSFB's Global Telecom CEO Conference. Holland reiterated FY01 guidance of \$550M revenue and 550,000 line adds. ALGX still interested in small data acquisitions, but looks to be very price sensitive on any deal.
3/7/2001	1,025,800	\$ 23.50	0.8%				<i>High Yield report issued.</i>
3/8/2001	918,500	\$ 23.56	0.3%		11:02	UBS <i>ING FM</i>	<i>Telecommunications services: searching through the wreckage.</i>
3/9/2001	1,135,800	\$ 22.25	-5.6%				<i>Analyst report.</i>
3/12/2001	1,876,000	\$ 20.06	-9.8%			RBC	Maintain Buy rating and price target of \$53. Slightly better than previously expected forecasts for revenue, EBITDA and line installs. Following a review of our model, slightly increasing our revenue; EBITDA and line install forecasts for 2001. No change in company guidance: revenue \$550 million; EBITDA negative low-teen margin; capex \$350 million. New 2001 revenue forecast is now \$549.9 million, up from \$540.3 million. Higher line installs are expected to more than offset our lowered 2001 estimate of \$52 from \$55 for average monthly revenue per line in 2001. Note that these figures are averages for all lines installed, not actual rates per line. Our 2001 net line installs forecast at 563,037, up from 448,040 previously. Our new forecast for 2001 net line installs is now 563,037, bringing the year-end installed base to 1,170,737 access lines. This is above guidance for 550,000 net installs for the year. Confident in company's ability to meet our forecast given its strong installation execution in recent quarters. Allegiance recently stated that about 60% of its orders are installed within 30 days.
3/13/2001	908,400	\$ 21.63	7.8%			CLS	
3/14/2001	1,522,600	\$ 19.19	-11.3%				(Cont'd) Increasing full year 2001 loss per share forecast to \$4.02 from \$3.26, due largely to depreciation and other non-cash expense forecasts. Believe we will probably have to change our loss per share forecasts once again upon reviewing the company's soon-to-be-filed 10K. Our new 2001 loss per share forecast is \$3.99 versus \$3.25 previously. Increased our capital spending forecast to \$350 million from \$320 million as some capex meant to be spent in 4Q00 was carried over into 1Q01. On model does not assume the company will begin drawing down its \$500 million available credit line until early 2002. Cash and credit of \$1.17 billion at the end of 4Q00. Company's balance sheet remains one of the strongest in the industry, with \$671 million of cash and an unused credit line of \$500 million at the end of 4Q00. Its strong cash position leaves the company with flexibility to expand its 36-market entry plan or to make small opportunistic acquisitions. Our estimates indicate that the company remains fully funded to reach EBITDA positive in 2002, free cash flow positive and EPS positive in 2004.
3/15/2001	1,130,100	\$ 19.19	0.0%		10:34	BN	Allegiance buys HarvardNet; terms not disclosed.
3/16/2001	869,900	\$ 17.69	-7.8%		16:19	BN <i>Kaufman</i>	Allegiance was reiterated near-term Buy at Merrill Lynch; long-term rated Buy; target price is \$55 per share.
3/19/2001	3,249,600	\$ 16.94	-4.2%		15:28	BN	<i>Analyst report.</i> (3/17/2001) Allegiance Telecom favored by Pangaea LP hedge fund. Analyst likes growth prospects for Allegiance; expects shares to reach \$40.
3/20/2001	1,762,300	\$ 15.44	-8.9%			SEC	Preliminary proxy filed for shareholder's meeting on May 9, 2001. Purpose: 1. To elect four members to our Board of Directors to serve for a three year term as Class III Directors. 2. To approve an amendment to our Amended and Restated Certificate of Incorporation increasing the number of authorized shares of our common stock, par value \$.01 per share, from 150 million to 750 million shares. 3. To ratify the appointment of Arthur Andersen LLP as our independent public accountants for fiscal year 2001. 4) Other business.
3/21/2001	5,183,900	\$ 14.27	-7.6%		8:28	BN	Allegiance was reiterated Strong Buy at Thomas Weisel.
3/22/2001	3,207,400	\$ 14.50	1.6%			<i>Fahnestock</i> <i>Buckingham</i> CIBC	<i>Analyst report.</i> <i>CLECs decimated in market; reiterating Strong Buy ratings.</i> Allegiance rated Strong Buy. We have been cautious on the CLEC/local broadband sector for quite some time, due mainly to concerns over increasing debt levels, funding needs and what we viewed as overly aggressive expectations. In fact, these concerns prompted our downgrades of both Winstar, Hold and Focal, Hold from Buy to Hold ratings on January 8th. However, over the past few weeks we've witnessed a downturn in the stocks of many CLECs that has been more rapid and dramatic than even we anticipated. Year-to-date, the average CLEC is down 15%-20%, on top of a 75%-80% drop during 2000. We continue to recommend investors underweight the group for the next few months until we get better visibility on such things as revenue, EBITDA and cap-ex estimates, as well as potential bankruptcies.
3/23/2001	1,350,100	\$ 15.00	3.4%				
3/26/2001	1,826,900	\$ 16.00	6.7%				

EVENT CHRONOLOGY

Allegiance Telecom Inc. (ALGX)
Class Period: 4/24/01 - 2/19/02

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source	Event
3/27/2001	2,228,100	\$ 16.94	5.9%		RBC	<i>Fine-tuning earnings model; lowering price target; maintain Buy rating.</i>
3/28/2001	873,500	\$ 15.88	-6.3%		KeyBanc Capital One Southcoast	<i>Revising estimates below EBITDA line; excellent buying opportunity.</i> <i>ALGX: validation of the competitive telecom model; raising price target to \$58 from \$55.</i>
3/29/2001	1,516,100	\$ 15.06	-5.1%	10:36	Hibernia Hoak Breedlove Wesneski (Hoak) BN	<i>ALGX: validation of the competitive telecom model; raising price target to \$58.</i> <i>Analyst report.</i> Allegiance was reiterated short-term Strong Buy at Hibernia Southcoast Capital; long-term rated Strong Buy; price target raised to \$58 from \$55.
3/30/2001	2,522,300	\$ 14.75	-2.1%	13:21 9:22 11:24	PRN BN BN SEC	Allegiance introduces phone service in Fort Lauderdale, FL. At end of 2000, Allegiance had installed more than 600,000 lines. Allegiance was reiterated Buy at JP Morgan. Allegiance was reiterated Strong Buy at Hoak Breedlove; price target is \$50. 10-K405 filed for period ending Dec. 31, 2000.
4/2/2001	1,543,400	\$ 12.25	-16.9%		UBS Warburg (UBS)	Launching coverage of CLEC industry and 9 telecom operators: McLeodUSA, Time Warner Telecom, Universal Access, Allegiance (assuming coverage), Choice One Communications, Mpower Communications, Pac-West Telecom, Winstar Communications and XO Communications. Believe our outlook on sector is realistic and conservative and points investors to the right opportunities to profit from the deregulation of the telecom industry and growth of voice and data services. Allegiance rating lowered to Buy from Strong Buy; target price is \$27.
4/3/2001	8,364,500	\$ 12.69	3.6%			Assuming coverage of Allegiance; Buy rating with \$27 target; would likely review rating and price target as company moves closer to cash flow positive and meets its quarterly targets. Buy rating related to stock market environment, not management's execution or strong fundamentals. Allegiance one of top CLEC operators. Expect Allegiance to complete 36-market plan. Debt-to-cap ratio not excessive; project EBITDA positive not until mid-2002; positive cash flow until 2004-2005.
4/4/2001	4,745,400	\$ 11.00	-13.3%	9:16	BN Citibank Stephens	Allegiance raised to Outperform at Stephens Inc.; price target is \$28. <i>Don't panic, emerging telecom model is still valid</i> Allegiance's stock has plunged on indiscriminate selling of shares within the CLEC space; has created an opportunity for investors to separate those entities that will survive from those that won't. Think Allegiance will survive, and because its shares have dropped below the \$20 level where we have thought they'd begin to be attractive, we are raising our rating from Neutral to Outperform, price target \$28. Not changing estimates.
4/5/2001	2,468,300	\$ 12.75	15.9%		Stephens	Data CLEC fallout; we like Allegiance. With data CLECs on fast train to nowhere; think Allegiance, McLeodUSA and Time Warner Telecom are likely survivors. Recently upgraded Allegiance from Neutral to Outperform, mainly on valuation.
4/6/2001	2,164,500	\$ 12.50	-2.0%			Allegiance rated Strong Buy; lowered price target from \$43 to \$22 reflecting lower revenue and slower scalability ramp. Allegiance was formerly funded; revised status if for fully funding mid-2003; new gap of \$425M. 2002 revenue lowered from \$982M to \$786M; EBITDA lowered from \$13M to (\$43M). Breakeven timeframe revised from 3Q02 to 2003. CLEC stocks down 25-30% since January; market expecting bad news and doesn't believe CLECs can hit their numbers for 2001 and 2002.
4/9/2001	340,100	\$ 12.75	2.0%		CIBC	William Blair initiates coverage of 5 leading CLECs (Competitive Local Exchange Carriers), Allegiance being one them; believe these companies poised to be key beneficiaries of the industry's potentially explosive long-term growth. Investors who have patience will earn attractive returns over next several years.
4/10/2001	2,571,700	\$ 15.25	19.6%	9:33	PRN	Allegiance rated new Strong Buy at William Blair.
4/11/2001				13:04	BN Wachovia	Strong Buy with \$42.50 target price. Adjusting EPS estimates downward to reflect faster depreciation of assets; lowering 2001 EBITDA to low end of company's range of guidance, (\$105.0) from (\$101.0) million. Confident in business plan. Believe recent decline in share price is unwarranted; Allegiance is one of very best CLECs in the industry.
4/12/2001	3,364,900	\$ 16.10	5.6%	10:11	BN	Allegiance raised to Strong Buy from Buy at Dain Rauscher Wessels; target price is \$21.
4/12/2001	1,741,100	\$ 16.00	-0.6%	14:45 16:18	DJCSA BN	West Highland Capital reported a 5.3% stake in Allegiance as reported in SEC filing.
4/13/2001				8:10	BN	Invesco Telecommunications Fund manager bought shares of Allegiance over last several months.
4/16/2001	491,200	\$ 15.75	-1.6%	6:09 10:55 10:56 10:57	BN PRN PRN DJNS (Down Jones News Service) Hoak	Regional phone carriers expect to save under FCC subsidy revamp. Allegiance price target cut at Lehman Brothers to \$29 from \$45; Buy rating maintained. IQ earnings to be broadcast over Internet on April 25 at 9:00 am ET. Allegiance announced creation of centralized Web hosting division; company acquired HarvardNet. Allegiance acquired Adgrafix, a Web hosting services company. Acquisition to have minimal impact on financials.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source	Event
4/17/2001	796,400	\$ 15.84	0.6%			CSFB UBS	Allegiance has one of strongest management teams in sector and a solid financial position making it a survivor in sector shakeout. Numbers achievable near-term. Street expectations appear aggressive, long-term. Looking for 125,000 installs and 177.5 million lines sold in the quarter. ARPU likely to decline 9% sequentially. Lowering target from \$45 to \$29; rating unchanged at 2-Buy. Absolute EBITDA loss will likely show minimal improvements to \$29.2 million, believe this number may prove to be conservative as it represents a 7.5% incremental EBITDA improvement versus 12% posted in 4Q00. Allegiance will be holding an analyst day on May 2.
4/18/2001	2,549,400	\$ 17.99	13.6%			SEC	1Q01 CLEC vital signs preview: focus on funding continues to overshadow a solid 1Q01 fundamental outlook.
4/19/2001	1,186,800	\$ 16.99	-5.6%		18:33	BN	Rated Buy with \$15.75 target. Company's new web hosting division and latest acquisitions should help the CLEC achieve its targets for data services revenue in for the balance of 2001. By our estimates, the Allegiance's revenue from data services will grow 178% in 2001 to \$168 million. Data services will comprise to comprise 31% of revenue this year, up from 21% in 2000. In its press release, management noted that the creation of this division and acquisitions will have minimal impact on the company's near term EBITDA losses. At present we are leaving our forecasts unchanged. Believe that Allegiance will meet our first quarter 2001 estimates. Our projections are: Local Revenue: \$69.1m; Long distance Revenue: \$4.8m; Data revenue: \$31.1m; Total Revenue: \$105.0m; Gross Margin: 49.0%; EBITDA Loss: \$29.9m; Net Income Loss: \$108.5m (Loss Per Share \$0.99); 4Q00 Access Lines: 607,700 and 1Q01 Access Lines: 732,170.
4/20/2001	1,602,600	\$ 15.51	-8.7%		14:06	BN	10-K405/A filed for period ending Dec. 31, 2000.
4/23/2001	1,728,500	\$ 14.85	-4.3%			BN	US regulators cut fees large local phone companies must pay rivals for linking customers to ISPs, a victory for regional carriers such as BellSouth.
4/24/2001	1,754,400	\$ 14.90	0.3%		10:45	BN	Allegiance was reiterated near-term Buy at Merrill Lynch; long-term rating reiterated Buy; target price is \$40.
						BN	CLASS PERIOD BEGINS
						BN	Allegiance was reiterated short-term Strong Buy at Hibernia Southcoast Capital; long-term rating reiterated Strong Buy; price target is \$58.
					19:08	PRN	Allegiance 1Q revenues \$105.9 million, up 11%; lines sold and installed were quarterly records with new lines sold increasing from 152k in Q4 to 165.9k in 1Q. To date, Allegiance has installed 733.9k lines of which 90% are "on-switch"
					19:09	DJNS	1Q loss was 87 cents per share vs 59 cents for 1Q 2000. Allegiance had record levels of installations and orders, with new installations of 126,200 lines and new orders of 165,900 lines; total lines in service increased to 733,900. EBITDA loss margin improved to 28.3% from 59.2% in year-ago quarter. Company expects to see additional markets turning pre-overhead EBITDA positive in 2001.
						CLS	Allegiance expects to report 1Q01 results after market close today. Looking for 1Q revenue of \$105M and consolidated EBITDA of (\$29.2M). Maintain Buy and price target of \$53. Believe sharp decline in Allegiance's market value reflects the significant concerns for decelerating growth and funding difficulties in CLEC sector as a whole and not Allegiance specifically. Not expecting reduced expansion plans for Allegiance, at least not yet.
						First Union	Slight upside in net line additions 126,200 net adds vs. 125,000 estimate yields modest revenue upside; Revenue of \$105.9mm is up 11.5% sequentially. Our estimate was \$105.6mm. 62.6% incremental gross margins yield blended gross margin of 51.6%, 60bps ahead of our estimate and 120bps ahead of the prior quarter. As expected, average revenue per line declined from \$57.21 in 4Q00 to \$52.61 in 1Q01. Presumably reflecting the impact of ALGX' ISP services contract, most notably with Genuity. DSO's appear to have widened slightly beyond the 90 days shown in Q4; Do not anticipate any meaningful improvement in NR until late 2001/early 2002 as management slowly deploys an in-house billing platform. Just over \$1B in available funding appears sufficient to fully execute plan; shares are compelling at an implied \$1542 times 2001 year-end target of 1.1 million lines. Our models suggest Allegiance is over-funded on its existing 36 market business plan by about \$130mm.
4/25/2001	7,291,400	\$ 16.21	8.8%		8:30	SBC	ALGX: Q1'01 on-target; this CLEC is alive and well.
					9:11	PRN	Allegiance and Qwest advance local phone competition.
					9:59	BN	Allegiance was reiterated near-term and long-term Buy at Merrill Lynch; price target is \$40.
					12:21	BN	Allegiance was reiterated Strong Buy at Kaufman; price target is \$50.
					13:46	BN	Allegiance was reiterated Buy at Fahnstock.
					16:03	DJNS	Allegiance raised to Buy from Outperform at Stephens; price target is \$28.
							Qwest pact to help Allegiance meet 2001 goals. Agreement will help Allegiance meet its goal of adding 560,000 access lines during 2001. Merrill Lynch analyst said that agreement "shows that Qwest is trying to work with some competitors like Allegiance." Allegiance has electronic bonding pacts with Verizon, SBC and BellSouth. CFO Lord said that company needs no further funding and is small enough to gain market share in a slowing economy. Robertson Stephens analyst said that "we think they can definitely outperform in an economic slump."

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source	Event
				16:17	William Blair	Stellar operational performance continues. Met or exceeded targets for 1Q. Reiterated guidance for \$550 million revenue in 2001; \$350 million capex; and 560,000 net line adds. Expects EBITDA positive in 2002. Shows no sign of economic slowdown unlike other recent telecom earnings announcements. Business plan fully funded. Strong Buy.
					Bear Stearns Buckingham Research	Allegiance to host its 3rd Annual Analyst Conference on May 2 in Dallas. Allegiance 1Q on target. Strong Buy with \$84 price target. Allegiance a leading CLEC. Company will be fully funded at end of 2002 and EBITDA positive in 36 markets addressing 57% of total U.S. business communications market. Company has installed 607,700 lines and is well on its way to realizing its 550,000-line addition target for the year. EPS estimates reduced as a result of higher anticipated interest changes emanating from company's refinancing last year.
					CIBC	Rated Strong Buy. EBITDA losses, which we had hoped would continue to narrow, were flat with 4Q (\$30M). While we believe Allegiance will be a survivor, remain cautious on entire CLEC sector near-term. Investors with a longer-term horizon should buy opportunistically at these levels. Price target is \$22.
					CIBC	1Q results mixed; questions remain regarding scalability. Rated Strong Buy. Cash burn appears to be heavier than expected. Believe Allegiance will be one of CLECs to survive the current shakeout.
					CSFB	ALGX: delivering another strong quarter. 1Q met or exceeded our expectations. Consider company to be fully funded. Reiterate Attractive/Speculative recommendation. One surprise in the quarter was the company's capital spending of about \$120M, higher than we expected; company reiterated that it is holding to its \$350M spending budget this year.
					Fahnestock Hoak Kaufman	ALGX: 1Q result on target - maintaining full year estimates. Analyst report. Allegiance still in the ring; Strong Buy and \$50 target. Company destined to become major player in domestic voice and data marketplace. In revenues in line with our estimate of \$106.5 million. Lines sales just shy of our aggressive estimate of 172,591. Sales/install intervals are very strong. EBITDA loss in 1Q just below our estimate of (\$29.2) million. No doubt that Allegiance is destined to become a very large company.
					Lehman Brothers	1Q01 earnings follow up. 2-Buy rating, \$29 target. Strong management team and solid financial position make ALGX a survivor through near-term sector shakeout. Results generally in line with expectations. ARPU declined as expected. Revised 2Q sales estimate of 181,700 new lines remains relatively constant with 1Q's level. We forecast 134,000 installs in 2Q; 560,400 installs for FY01.
					Raymond James	Allegiance continues to execute its business plan. Rated Buy 2 with \$50 target price. Company reported strong 1Q results and had upbeat conference call this morning. Continue to believe Allegiance has funding available to complete its 36-market plan and carry it through to EBITDA breakeven. During conference call, management will light fiber in 6 additional cities in 2Q, bringing total number with fiber to 9. Remain cautious on CLEC sector, but believe Allegiance is one of top names in sector. Reiterate Buy.
					RBC SSB	Analyst report. ALGX: Q12001 on target; this CLEC is alive and well. Rated Buy, Speculative. Adjusting all of our DCF targets; lowering ALGX's price target to \$30 from \$70 (a stale target); remains of our absolute favorite names with its fully funded business plan, strong balance sheet and proven track record. Allegiance is not reliant on vendor financing; expects to turn EBITDA positive in 2002. ALGX remains one of our favorite CLECs. Available funds as of March 31 are \$1.010B; company currently has less than \$1B in debt.
					Stephens	It's All About Execution; Raising Rating to Buy; \$28 price target. Allegiance Telecom reported its 1Q results for fiscal 2001, in line, with our expectations. Revenue of \$105.9 million and net line adds of 126,200 both modestly exceeded our expectations. EBITDA loss of \$29.9 million was slightly below our forecast of \$28.9 million due to higher-than expected general and administrative expenses. Within the past week, two Regional Bells revised expectations downward, blaming the slowing economy; Allegiance stated that the economy is having no impact on its business and that it expects to meet its previously issued guidance. Made only minor changes to our financial forecast. Full year revenue and EBITDA now projected at \$552.4 million and \$95.5 million compared to our earlier forecast of \$550.5 million and \$92.9 million, respectively.
						(Cont'd) Our year end line estimate of 1.16 million remains unchanged. With the business moving along as expected, still believe Allegiance's business plan to be fully funded. At the end of 1Q, company had \$510 million in cash and a \$500 million line of credit available. Believe the strength of Allegiance's balance sheet will allow it to obtain additional funds if needed. With steadily improving operating results, a growing customer base and a fully funded business plan, Allegiance looks to us like it will be a survivor in this sector.
					UBS	ALGX: Bullseye! Reported 1Q results on target with previous guidance and our expectations. Management delivered on promises made earlier. Maintain Buy rating and \$27 price target. Allegiance is a solid story in an unsteady sector and turbulent market environment. Believe EVP Parella will step up lines sales and installations during the year.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
4/26/2001	2,651,600	\$ 15.87	-2.1%		9:20 11:20 12:05	JP Morgan BN BN
					16:34	BNP CLS

Strong Buy with \$42.50 price target. 1Q beat our expectations. Maintaining estimates. EPS loss of 87 cents far ahead of our forecast loss of \$1.08. Lines sold during 1Q were 165,900; lines installed were 126,200 (we had expected 120,000); total lines installed almost 735,000. Company indicated comfortable with its previous guidance of \$550 million (we are forecasting \$545 million); continues to expect EBITDA profitability in back half of 2002. Shares represent excellent investment.

Allegiance reported in-line 1Q results; revenue growth driven by strong line add momentum. Reiterate Buy.

Allegiance was reiterated Strong Buy at Robertson Stephens.

Allegiance was reiterated short-term Strong Buy at Hibernia Southcoast Capital; long-term rating reiterated Strong Buy; price target is \$58.

BNP Paribas HY: Allegiance Telecom 1Q results.

Allegiance reported 1Q EPS results that largely matched our forecast. Company's liquidity and low leverage position remains the strongest in the CLEC group. Management expressed confidence in its prior guidance and its expansion plans for 2001. Maintaining Buy rating and lowering price target from \$53 to \$33 to realistically reflect the current pressure on the market valuation of companies in the CLEC sector.

Hibernia (aka Capital One ALGX: strong operational trends continue in 1Q01).

Southcoast)

RBC

Robertson Stephens

Wachovia

4/27/2001	2,042,900	\$ 15.77	-0.6%		16:00 18:06	PRN BN
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Raising estimates to reflect strong first quarter results; Reiterate Strong Buy Rating. 2001 revenue estimate is \$549.9 million, although the company still expects to reach \$550 million for the full year. 2001 EBITDA forecast is loss \$102.3 million, slightly better than previous forecast of a loss of \$105 million.

Allegiance applauds FCC order on competitive carrier access charges.

FCC's decision will have a "modest impact on most publicly traded" small local phone companies such as Allegiance and U S LEC Corp., according to a Legg Mason Wood Walker analyst. Allegiance welcomed the FCC's decision, saying in a statement it would resolve "time-consuming disputes" and remove "a large amount of uncertainty."

Allegiance rose 13%; US regulators revamped subsidy system used when small CLECs exchange traffic with long-distance companies.

4/30/2001	2,664,000	\$ 17.99	14.1%		13:28	BN
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Allegiance rose \$2.22 or 14%; US regulators revamped subsidy system used when small CLECs exchange traffic with long-distance companies.

Robertson Stephens

Wachovia

5/1/2001	1,856,800	\$ 18.98	5.5%			Bear Stearns CIBC
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Allegiance, analyst conference on May 2 in Dallas.

Continue to recommend that investors underweight the CLEC group, at least for the next 6 months; remain convinced that many CLECs will not be able to hit 2H01 and 2002 numbers. Believe Allegiance and Time Warner Telecom are among the few to survive the current shakeout period largely intact.

Raising 2001 revenue estimate from \$510M to \$542M and 2002 from \$786M to \$867M in light of the FCC 4/27 order on switched access rates.

Raising price target from \$22 to \$27; Strong Buy rating.

ALGX: FCC access order provides added visibility; raising forecasts moderately. Strong Buy rating and new price target of \$27.

5/2/2001	3,168,500	\$ 20.35	7.2%		8:59 9:02 9:02 9:04	CSFB PRN PRN PRN DJNS
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CLECs and the new FCC access rules: contribution to EBITDA is the issue; no change in estimates or opinions.

Allegiance introduces service in Austin, TX; the 5th in Texas, the 30th market nationwide.

Allegiance unveils Hosting.com brand for its recently announced centralized Web hosting division.

Verizon and Allegiance completed electronic bonding between their operations support systems.

customer orders for local telephone service requests.

Analyst conference today.

CLECs: a review of the detailed FCC reciprocal compensation order. 72-page order released on April 27. We make no changes to our forecasts for any of the CLECs we follow, as the requirements of this order are in line with our prior expectations.

CLECs: financial implications of Central Office Co-location decommissioning.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source
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First Union

UBS

SEC

SEC

BN

BN

BN

BN

BN

Fahnestock

UBS

JP Morgan

BN

BN

BN

BN

CIBC

Raising rating to Strong Buy from Buy; target is \$29. No 'catalyst' from the investor meeting other than renewed comfort with the outlook for 2001. 2001 estimates remain unchanged at \$550mm in revenue and \$105.8mm in EBITDA based on 560,000 net line installs. ALGX shares are compelling at an implied \$1.542 per line based on a year end 2001 target of 1.17mm lines installed. Balance sheet is strong: 32% debt to capitalization and is over-funded by an estimated \$150mm on its 36 market plan. Regulatory clarity on inter-carrier compensation gives visibility to estimates.

Analyst report.

8-K filed re: On May 2, 2001, representatives of Allegiance Telecom will begin making presentations at a securities analyst meeting using slides containing the information attached to this Form 8-K as Exhibit 99.1. Furnishing the text of these slides pursuant to the Securities and Exchange Commission's Regulation FD.

10-Q filed for period ending March 31, 2001.

Allegiance raised to Strong Buy from Buy at First Union Securities; price target is \$29.

Allegiance upgraded to Strong Buy from Buy at First Union; analyst expects shares to reach \$29 within a year.

Allegiance was reiterated near-term Buy at Merrill Lynch; long-term rating reiterated Buy; target price is \$40.

Allegiance was reiterated Buy at Fahnestock.

ALGX: upbeat analyst meeting reaffirms guidance.

ALGX: Rockin into the future. Rated Buy with \$27 price target. Allegiance hosted upbeat analyst day...stable footing and bright future. Company reaffirmed its comfort with earlier 2001 guidance. Believe company will steadily improve its lines installed and meet its year-end target of 560,000 lines added.

Company set positive tone at annual investor/analyst conference on 5/1. Central theme was to highlight way differentiated itself from its competition, namely robust sales and provisioning systems, strong balance sheet, fully funded status and optimal local network architecture. Management reiterated confidence in ability to meet 2001 targets. Maintaining our 2001 revenue estimate of \$553 million and EBITDA loss estimate \$101 million. Management's positive posture with respect to line add estimates gives us confidence in its ability to meet 550,000 line add projection for 2001. Reiterate Buy rating.

Allegiance was reiterated Add at ABN Amro; target price is \$40.

Allegiance was reiterated Strong Buy at Robertson Stephens; price target is \$29.

CEO Holland talked with Bloomberg analyst about Allegiance's stock performance, network capacity and outlook for the telecom industry.

Bloomberg interview with CEO Holland. Allegiance has 36 U.S. markets that contain 57% of the business communications market. Allegiance is fully funded, cash-flow positive and has the lowest debt to paid in capital ratio in the emerging telecom industry. Holland said company not affected by excess capacity. Have seen strong margin improvement quarter over quarter; investing a lot in building out networks.

ALGX held an upbeat analyst meeting on May 2; no major news. Meeting certainly re-enforced our view that ALGX remains one of our favorite names in sector. For investors with horizons beyond 2001, believe current prices offer an attractive entry point into the stock; our price target is \$27. Recently raised our revenue and EBITDA forecasts, primarily in light of the recent FCC order on switched access and the resulting increased visibility into 2001 and 2002 results. Continue to believe guidance for most CLECs appears overly aggressive for 2101 and 2002 and expect continued reductions over the next 3-6 months. Believe ALGX is one of few CLECs that will be able to achieve guidance this year. Our 2001 revenue forecast goes from \$510 million to \$542 million still slightly below guidance of \$550 million, while our 2002 forecast goes from \$786 million to \$867 million, reflecting more realistic switched access rates; our forecast of EBITDA losses falls from \$104 million to \$100 million in 2001 and from \$43 million to \$7 million in 2002; believe company will turn EBITDA positive sometime in 2002.

(Cont'd) Company also addressed an area which continues to be of paramount concern to CLEC investors, namely its funding position and, particular, the status of its existing untapped \$500 million credit facility. We are confident that the company can easily meet the covenants spelled out in the credit facility, and that it is not in any type of jeopardy. Relative to company guidance, there is a revenue cushion of \$105 million in 2001 and \$148 million in 2002, while the cushion for capital expenditures is \$150 million and \$110 million, respectively. In addition, ALGX has an additional borrowing capacity beyond its current credit facility of approximately \$600 million under these covenants. Company claims to be fully funded; however, our more conservative model indicates the company is funded well into 2003, with a modest funding gap of approximately \$250 million.

Analyst report.

Allegiance: turning bandwidth glut into bandwidth banquet. Buy rating and \$28 price target. Company continues to meet expectations and reiterated prior financial guidance given to investors. Not changing our 2001 forecasts. Allegiance's position in volatile telecommunications industry: appropriate technology strategy, favorable regulatory climate and business execution. Most impressed with Allegiance's technology execution.

Robertson Stephens
Stephens

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
5/7/2001	856,000	\$ 18.80	3.2%		10:46	BN
5/8/2001	1,722,200	\$ 17.35	-7.7%		13:35	CIBC
5/9/2001	2,066,200	\$ 16.55	-4.6%		11:20	BN
					20:02	BN
						Hoak
						SEC
5/10/2001	923,700	\$ 16.36	-1.1%			
5/11/2001	720,200	\$ 16.10	-1.6%			
5/14/2001	1,373,200	\$ 15.55	-3.4%			
						Fitch IBCA, Duff & Phelps (Fitch)
5/15/2001	1,190,000	\$ 14.61	-6.0%		10:45	PRN
5/16/2001	1,789,700	\$ 16.05	9.9%		11:31 11:58	PRN FII (Fitch) SEC
5/17/2001	1,937,200	\$ 15.55	-3.1%		8:28 15:13	BN BN
5/18/2001	843,300	\$ 15.39	-1.0%		16:11	BN
5/21/2001	2,485,000	\$ 16.84	9.4%		9:40	UBS
5/22/2001	1,523,100	\$ 17.19	2.1%		16:51	BN
5/23/2001	709,900	\$ 16.79	-2.3%			RBC CIBC
5/24/2001	493,000	\$ 16.84	0.3%			CIBC
5/25/2001	519,000	\$ 16.80	-0.2%		10:12	BN
5/29/2001	507,000	\$ 16.10	-4.2%			
5/30/2001	1,212,600	\$ 14.70	-8.7%			
5/31/2001	974,600	\$ 15.44	5.0%			
6/1/2001	535,600	\$ 15.31	-0.8%			SEC

App. 221

FCC seeks to levy higher fines on Verizon and other regional phone carriers when they treat rivals unfairly from \$1.2 million to \$10 million for each violation.

Quiet weekend in telecom. Allegiance Telecom ALGX held an upbeat analysts' meeting May 2.

FCC proposes to change phone subsidy system collections.

First Union analyst talks with Bloomberg about trends among providers of telecommunications services and the sector outlook.

Bill that would lift restrictions on BellSouth and other regional U.S. phone carriers offering high-speed Internet service pass a House committee vote.

Allegiance Telecom Inc. analyst report.

S-8 filed re: Registration Statement being filed by Allegiance Telecom in connection with the registration of an additional 8,766,333 shares of our common stock, par value \$.01 per share, issuable pursuant to the Third Amendment to the Allegiance Telecom, Inc. 1998 Stock Incentive Plan. There is an effective registration statement relating to the issuance under this Plan of 6,000,000 shares of our common stock. There is an effective registration statement relating to the issuance under this Plan of 9,233,667 shares of our common stock, after giving effect to a three-for-two stock dividend on our common stock issued to stockholders on February 28, 2000.

Fitch Credit Update: Allegiance Telecom. Sr. Sec rated B+; Sr. Unsec. Rated B (from 10/12/00). Rating Outlook is Stable. Allegiance's strengths are a fully funded 36-market plan, management's experience and operating flexibility due to strength of Allegiance's OSS that can provision 80% of its customers within 30 days. Credit concerns are intense competition, negative event risk, as ALGX may seek to acquire a CLEC, ISP or Web-hosting company that is highly levered, expansion beyond its current 36 markets, possibly delaying its ability to generate positive EBITDA, and that EBITDA growth may be negatively affected by softness in the economy due to the possible lengthening of the selling process. Fitch expects ALGX to spend about \$350 million on capital in 2001.

Allegiance introduces service in Sacramento, CA. Company now serves 31 markets, including 7 in California. To date, Allegiance has 730,000 installed lines in U.S.

Amex to trade Allegiance Telecom options with position limits of 75,000 contracts beginning May 16; ticker is QGX.

Credit Update report published on Allegiance.

Preliminary proxy soliciting materials filed re: annual shareholder meeting on July 26, 2001 to consider and vote upon the following: 1. To elect four members to our Board of Directors to serve for a three year term as Class III Directors. 2. To approve an amendment to our Amended and Restated Certificate of Incorporation increasing the number of authorized shares of our common stock, par value \$.01 per share, from 150 million to 750 million shares. 3. To ratify the appointment of Arthur Andersen LLP as our independent public accountants for fiscal year 2001. 4. To transact any other business.

Allegiance, a money-losing seller of business telephone and Inet services asked shareholders to approve an increase of common shares to 750 million from 150 million. Scheduled to vote July 26. No immediate plans to issue.

U.S. bill to boost phone fines would aid rivals, help increase local-phone competition. Allegiance urged Congress to link the fines to revenues when competitors are hurt.

Allegiance seeks fivefold increase in shares from 150 to 750 million.

UBS Warburg HY issues report - Lines of Communication on May 17.

Small phone carriers double share of local market, FCC reports.

Allegiance Telecom Inc. analyst report.

Recent 1Q sector performance indicates that "clean-up" period has started and should take several quarters to evolve as CLECs focus on improving balance sheets, capital efficiency, and scalability. Believe Allegiance one of companies to be best positioned in this more stable environment. Believe that by 3Q or 4Q, most of the bad news will be out and discounted in the stock prices of those left standing. Allegiance rated Strong Buy, \$27 price target.

Remain cautious on CLEC/local broadband sector over next 3 to 6 months. Top picks are Allegiance, McLeodUSA, Time Warner Telecom and Choice One. Allegiance rated Strong Buy.

Allegiance was reiterated Strong Buy at Hibernia Southcoast Capital; price target is \$58.

Proxy filed for shareholder meeting on July 26.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
6/4/2001	1,191,800	\$ 15.01	-2.0%			Telephony

6/5/2001	1,306,000	\$ 15.99	6.5%			
6/6/2001	812,800	\$ 16.10	0.7%			
6/7/2001	767,100	\$ 16.14	0.2%			
6/8/2001	573,000	\$ 16.27	0.8%	6:22	BN	

Wall Street Journal "Heard on the Street": Allegiance does not need more money to complete its phone and Internet network because the company hasn't sold junk bonds like its competitors. CFO Lord calls junk bonds "high yield heroin."

CIBC

6/11/2001	1,463,900	\$ 16.10	-1.0%			WSJ Europe
6/12/2001	971,400	\$ 15.53	-3.5%			

Allegiance has relied more on stock sales than bond offerings. Its \$66 million of debt at year end was 27% of total capital raised. According to Mulex.com, there are 18 "Strong Buys" on Allegiance and 7 "Buys". Allegiance doesn't expect to have positive cash flow or EBITDA until 2002. Goldman Sachs credit facility for Allegiance, to date untapped, now stands at \$500 million.

6/13/2001	1,071,000	\$ 15.32	-1.4%			
6/14/2001	1,594,600	\$ 13.86	-9.5%	11:18	PRN	
6/15/2001	774,800	\$ 13.91	0.4%		The Oregonian	

Allegiance introduces service in Portland, OR. To date, company has installed more than 750,000 lines nationwide.

Allegiance shares fell 10% on Thursday; company announced it is offering business voice and data services in Portland area.

6/18/2001	1,671,200	\$ 12.46	-10.4%	16:38	BN	
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Regional U.S. telephone carriers likely be criticized tomorrow as Senate committee holds its first hearing on telecommunications. CEO Holland to testify.

AG Edwards

6/19/2001	2,296,900	\$ 11.10	-10.9%	13:24	BN	
				14:04	BN	
6/20/2001	1,888,900	\$ 11.55	4.1%			
6/21/2001	2,617,300	\$ 13.20	14.3%	13:50	BN	

Allegiance rated new Accumulate at AG Edwards; price target is \$21.

Rivals of regional phone carriers urged lawmakers to increase fines and penalties to make the large companies comply with U.S. law and to boost local phone competition. CEO Holland urged that fines equal 1% of a company's quarterly revenue.

6/22/2001	373,600	\$ 13.31	0.8%			
6/25/2001	453,100	\$ 13.54	1.7%	11:32	PRN	
6/26/2001	318,300	\$ 13.48	-0.4%	11:35	PRN	
					AG Edwards	
6/27/2001	992,000	\$ 13.20	-2.1%	16:36	BN	

John Dorfman: Allegiance one of 10 companies Bloomberg identified as having an average rating of 4.9 (5.0 as Strong Buy) or better among companies that are followed by at least 12 analysts and have a market value of \$1 billion or more. Only 4 of those companies were profitable in the 4 quarters through March; suggests that analysts are basing their recommendations on what they foresee happening, rather than events that have already happened. Regarding Allegiance, "the balance sheet is okay, and the stock, having fallen to around \$14 from more than \$100 last year, is moderately priced. But doesn't anyone have a concern that Allegiance lost \$2 a share 1999 and 2000, and is expected to lose \$3.79 a share this year?"

Allegiance launches Hosting.com brand in Boston.

Allegiance launches Hosting.com brand in Los Angeles.

CLEC is dead! Long live the CLEC!

Allegiance one of 3 companies that are the most successful small U.S. telephone carriers that compete with the large regional companies, a Brookings Institution report said.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
6/28/2001	669,700	\$ 14.34	8.6%		0:23	BN

6/29/2001	1,102,300	\$ 14.99	4.5%		8:31 10:34	BN PRN
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Stephens

7/2/2001	727,000	\$ 14.51	-3.2%		11:19	William Blair PRN RBC
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7/3/2001	788,900	\$ 15.37	5.9%			
7/5/2001	956,000	\$ 13.70	-10.9%			
7/6/2001	712,100	\$ 13.41	-2.1%			
7/9/2001	591,900	\$ 13.60	1.4%		16:39	BN CSFB

7/10/2001	589,300	\$ 12.99	-4.5%		17:05	BN CIBC
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Fitch

Date	Volume	Price	% Chg	Residual % Chg	Time	Source
7/11/2001	717,600	\$ 12.65	-2.6%		9:02 10:49 11:07	Interactive Week from ZDWire PRN BN FII

Robert W. Baird (Baird)

Event

Smaller telephone companies' increased reserves for bad debts average of 33% in first quarter, concerned about slowing economy and customers of acquired businesses. Allegiance added \$10 million to reserve over last year to hedge against possibility of unpaid bills.

Conseco High-Yield Fund talks with Bloomberg regarding view on Allegiance Telecom.

Friedman, Billings, Ramsey (FBR) initiated coverage on Allegiance Telecom with an Accumulate rating and price target of \$30. Analyst identified Allegiance as a competitive provider of telecommunications services to small- and medium-sized businesses in Tier 1 markets across the U.S. "Allegiance has emerged as one of the true leaders in the CLEC/ICP sector, utilizing a highly capital efficient 'smart build' strategy to provide integrated communications services...Allegiance has been able to provide service to its 32 markets-growing to 36 markets at the end of 2001-with relatively modest capital expenditure and little debt in comparison to most facilities-based service providers...the company's back office and provisioning systems are a key contributor to Allegiance's growth and success in scaling its business."

Feel the technology world has been paying too much attention to the Federal Reserve. Most important issues in telecom are overcapacity in wireline networks, lack of broadband applications, questionable technology, asset impairment and capital spending reductions, none of which the Fed can fix. However, momentum investors can no longer simply "buy the sector"; look at companies, often smaller than larger. CLECs sector has been focal point of careless venture investing and poor execution; Allegiance continues to execute its strategy as competitors fall and trades at an attractive valuation.

Allegiance is our top pick in the CLEC sector.
Allegiance introduces service in White Plains, NY.
Analyst report.

Allegiance rated new Hold at CSFB.

Initiating coverage with a Hold. Clearly impressed with Allegiance's management team, strong record of execution and very bright long-term growth prospects, do have number of concerns that lead us to be cautious on the stock. Concerns: possible downside risk to 2H01 and FY02 consensus estimates due to softening economy; risks related to successful revenue mix transition away from heavy dependence on highly profitable switched access revenues; and potential for rocky transition to an in-house billing system. Forecast Allegiance to achieve a base of about 7.6 million access lines in service by YE09. Fully funded business...barely. Estimate credit facility will need to be tapped by mid-02. Liquidity on hand enough for 36-month plan but barely sufficient to carry company FCF breakeven with little, if any room for error. Several large insiders have sold significant portions of ALGX holdings during the past several quarters. Forecasting EBITDA loss of \$28M for 2Q and line additions of almost 135,000. FY01 revenue estimated to be \$550M, EBITDA loss of \$104.5M, capex of \$350M.

Small local-phone carriers pleased with today's meeting with FCC's Chairman Michael Powell. Allegiance at meeting. CLEC 2Q01 outlook: the cleanup continues. Long-term investors should be considering Allegiance, Time Warner Telecom and Choice One.

Fitch Credit Update: Allegiance Sr. Sec rated B+; Sr. Unsec. Rated B (from 10/12/00). Rating Outlook is Stable. End of 1Q, fully funded 36-month business plan to point of generating FCF. Fitch expects ALGX to generate positive EBITDA in 2H02 to spend about \$350M on capital in 2001. Improvement in its credit-protection measures would be affected if company expanded its business plan to reach markets outside 36-market plan and/or expand internationally; this is very unlikely at this time due to capital market conditions. Expect Allegiance to begin drawing on \$500M credit facility in 2002 and does not expect secured debt as % of total debt to exceed 30%. \$500M credit facility provides company with additional liquidity, as it can be increased by \$200M if certain terms and conditions are met. Although strict covenants exist, facility provides company with flexibility to make acquisitions. Under terms of facility, company can make unlimited acquisitions using equity. Up to \$300M of debt can be used in a debt-financed acquisition if company is generating positive EBITDA and \$150M if it is not.

Allegiance plans to serve 36 major U.S. markets; has installed more than 730,000 business lines for customers nationwide and says it is fully funded to reach its goal.

Allegiance to host webcast of 2Q earnings news on July 24 at 5:00 pm ET.

Allegiance rated new Market Perform at Robert W. Baird; target price is \$35.

Fitch published Credit Update report on Allegiance.

Initiating coverage with a Market Outperform rating.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source
7/12/2001	666,800	\$ 13.82	9.2%		CSFB

Event

Initiating coverage with Hold rating. Impressed with depth of management team, strong record of execution, and bright long-term growth prospects, have number near term concerns 1) possible downside risks to 2H01 and FY02 estimates due to softening economy; 2) risks related to successful revenue mix transition away from highly profitable switched access revenues; and 3) potential for rocky transition to in-house billing system. Forecast robust access lines in service with 7.6 million lines in service by year-end 2009, or 14% share of addressable market. believe number of installed lines is achievable. Business plan barely fully funded.

(Cont'd) As of March 31, 2001, ALGX had approximately \$510 million in cash and cash equivalents on hand and \$500 million available via an untapped credit facility which we estimate ALGX will need to tap by mid-2002. Forecast that cash on hand and availability under the credit facility are sufficient to fully fund Allegiance's 36-market business plan. \$1.01 billion in available liquidity is just barely sufficient to carry the company to free cash flow breakeven with little, if any, room for error.

Lehman Brothers

Given the company's relatively strong balance sheet, it is one of the few companies that can continue to grow revenue and take share. Our \$124.9M revenue estimate requires 18% sequential revenue growth or \$19M absolute growth, up from \$15M in prior two periods. Revenue estimate is based on 1% ARPU decline and flat rep productivity assumptions. Our 34K install estimate assumes 3%/day productivity improvements and slight decline on a per collo basis. Projecting 100 bp seq GM expansion to 52.6% and \$2.8M EBITDA improvement to \$27.2, which appear reasonable given performance in earlier markets. Rating and target unchanged, 2-Buy and \$29.

Fitch Credit Analysis: Allegiance Telecom.

Fitch

7/13/2001	218,300	\$ 13.55	-2.0%
7/16/2001	411,500	\$ 13.09	-3.4%
7/17/2001	407,100	\$ 13.40	2.4%
7/18/2001	1,495,700	\$ 12.41	-7.4%
7/19/2001	822,800	\$ 12.90	3.9%

RS MMN (Morning Meeting Initiating coverage with a Market Perform.

Notes)

7/20/2001	1,590,100	\$ 12.26	-5.0%
7/23/2001	2,566,300	\$ 11.15	-9.1%

Allegiance was reiterated short-term Strong Buy at Hibernia Southcoast Capital; long-term rating is Strong Buy; price target is \$58.

Allegiance was reiterated Strong Buy at Kaufman; price target cut to \$27 from \$50.

Allegiance Telecom reports financials on July 24.

Allegiance expects to report 2Q results after market closes tomorrow. Looking for revenue of \$125M and consolidated EBITDA loss of \$28M, and net loss of \$109M or 98 cents per share. Believe company operates at comfortable level of financial liquidity. Predict company will meet or beat our 2Q forecast.

Analyst report.

Allegiance 2Q revenue \$124.1 million; up 17.2%; new installs 135,800 lines and new orders of 192,000 lines. Total lines in service 869,700. Company continued on path to profitability with EBITDA loss as % revenue 22.7% versus 28.3% in 1Q01 and 44.9% in 2Q00. Net loss \$0.92/share.

Allegiance 2Q loss was 92 cents compared to 52 cents year ago. Company expects positive EBITDA in 2002.

Allegiance 2Q loss widens on higher network costs. Allegiance lost 92 cents; average estimate of analysts had expected a 95-cent loss.

Allegiance 2Q loss widens as costs rise. "They're still rolling out new markets," said analyst at William Blair & Co. who has a Strong Buy rating on Allegiance shares. "Once they complete the building (of the network), their margins will begin to improve."

Conference Call

135,800 installs, right on plan; 192,000 new orders; 869,700 lines installed total. Capex will drop dramatically. \$500M facility and \$312M cash fully funds 36-market plan.

2Q revenues and EBITDA in line with expectations; growth outlook concerns remain; Hold rating maintained as we remain concerned on outlook for 2H01 and FY02 growth as result of economy. Cash burn was about \$45M higher than forecast resulting in a \$5M funding gap. Capex was 21% above our estimate.

CSFB

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
7/25/2001	2,014,000	\$ 13.08	20.0%		0:00	CNBC /DJ Business Video

SSB

6:34	BN	
8:09	JP Morgan	
9:01	STM (StarMine)	
9:49	BN	
9:53	BNP	
10:01	BN	
11:40	CMN (Canadian Market News)	

11:44	Market News Publishing
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12:26	BN
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13:26	BN
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13:55	BN
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14:32	William Blair
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17:27	BN
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	ABN
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Baird
CIBC

Event

Earnings estimate revised down. No change following Q2 results; outlook for H2 remains strong. Reiterate Strong Buy. '02 results modestly ahead of expectations on all metrics: 135,800 net adds versus 135,000 estimate yields 20 basis point upside to our estimate; revenue of \$124.1M is up 17.2% sequentially. Reported EBITDA of (\$28.1M) is 50 bps ahead of our expectation and narrowed from (\$30M) in the prior quarter. Upside is attributable to \$2.3M lower than expected SG&A spending, partially offset by \$1.8M higher-than expected network costs. Success in deploying fiber accelerated CAPEX spending. Roughly \$225M of the \$350M in CAPEX slated for 2001 has been deployed through Q2. Revenue quality is improving; less than 20% of revenue from switched access versus 24% in the prior quarter. Anticipate only modest decline in ARPU through 2001 as the first tranche of access rate reductions have already been incorporated. Just over \$800M in available funding appears more than sufficient to fully execute 36 market plan.

ALGX: Q2 on target; this CLEC is still alive and well. Company plan remains fully funded to FCF positive. Allegiance continues to report solid results quarter after quarter while maintaining a strong balance sheet. Reiterate Buy/Speculative rating and price target of \$30. Believe investors who take advantage of today's market price will be rewarded longer-term.

Interview with Allegiance's CEO Royce Holland. Company expects to turn cash flow profitable in 2H02; viewed to hit EBITDA break even at same time. Holland said that Allegiance has the least leveraged balance sheet in the telecom industry with a 27% debt to paid in capital ratio and that company is very strong. Believes CLEC shakeout is near its end. Expects to complete build out of 36th market plan in last half of 2001; have 33 markets. Capital spending going forward will be strictly growth driven.

Allegiance was reiterated Add at ABN Amro; price target is \$40. 2Q revenue and EBITDA in line. Company reiterated 2001 targets. Company continues to beat performance expectations and core strengths including customer acquisition; expense control and funding remain intact. Buy.

List of top rated analyst for Allegiance released. 27 analysts listed with First Union at top of list. Allegiance price target cut to \$18 from \$33 at Credit Lyonnais; rating reiterated as Buy.

BNP Paribas HY issued report on Allegiance: 2Q results - the beat goes on.

Allegiance was reiterated Buy at McDonald Investments; \$33 price target.

UBS analyst report: Allegiance Telecom reported quarterly results that were exactly on target with its guidance and our expectations for financial and operational progress. Company maintained its 2001 guidance for revenue, EBITDA and lines installed. Approaching the end of its build phase, the CLEC has shifted its focus to driving profitability in its markets. Look for Allegiance to realize greater network and operational leverage in 2H01 with much greater improvements in 2002. Remain cautious on CLEC stocks for the near-term. Believe that Allegiance and other companies are moving toward generating cash flow from solid operations represent long-term buys. Maintain Buy rating and 12-month price target of \$27.

Look for Allegiance to realize greater network and operational leverage in 2H01 with much greater improvements in 2002. Maintain Buy rating and \$27 price target.

Allegiance was maintained Strong Buy at Robertson Stephens. EPS estimates from (\$3.91) to (\$3.84) for FY 2001 and from (\$3.62) to (\$3.56) for FY 2002.

Allegiance rose \$1.55 or 14%. Company had 2Q loss of 92 cents a share; consensus was a 95-cent loss.

Allegiance was reiterated Accumulate at FBR.

Allegiance reports solid 2Q results. Company maintains 2001 guidance. Reiterate Strong Buy. Allegiance is our top pick and continue to believe it should be a core holding for telecom investors.

Shares of Allegiance rose 20% after it announced 2Q loss \$0.92 versus analysts' estimates of \$0.95 loss.

Q2 meets high expectations; reiterate Add and DCF based price target of \$40. Think ALGX has accelerated sequential revenue growth, improving margins, and improving cash burn rate and financial plan intact from targets set at beginning of year. Expect capex to decline dramatically in next 2 quarters. Allegiance's outlook remains robust after meeting high 2Q expectations.

Analyst report.

2Q results in line; 2H01 key to proving scalability; rated Strong Buy. Capex continues to run higher than expected, although ALGX makes a convincing case that it should drop considerably; maintaining 2001 capex forecast of \$370M. Company well funded well into 2003, even by our more conservative forecasts. Would not be aggressive buyers in near-term, believe investors should be in the stock before we actually begin to see concrete evidence of scalability, likely to occur later this year.

Date	ALGX Volume	ALGX Price	% Chg	Residual % Chg	Time	Source
						CLS

Event

Allegiance reported 2Q results that largely met our forecasts. Reiterating Buy rating and lowering price target to \$18 from \$33 to realistically reflect our near-term expectation for market valuation of companies in CLEC sector, including ALGX. Continue to believe that strong liquidity, low leverage and performance-driven sales force will enable company to continue its solid 1H performance and exceed those results in 2H of year. Believe company is operating with adequate financial cushion. Pleased with Allegiance's performance and maintaining most of the numbers in our forecast metrics. Believe sharp decline in market value reflects significant concerns for decelerating growth and funding difficulties in CLEC sector as a whole, not Allegiance specifically.

ALGX: 2Q01 reported - revenues and EBITDA in line.

Another solid quarter, market entry almost complete, paving way for profitability. ALGX reported in-line 2Q results and remains fully funded. Allegiance is the winner of the CLEC/ICP turf war. Reiterate Strong Buy rating.

2Q results in line. ALGX is one of few competitive carriers that can afford to continue to invest in aggressive revenue growth and market share taking initiatives. Rating unchanged at 2-Buy and target of \$29.

ALGX: it's all about execution; maintain Buy rating and \$33 price target. Once again, Allegiance defies the odds and produces strong 2Q results. Revenue, EBITDA and EPS all in line with expectations. Network and back office improvements continue. Company fully funded on its current plan. With company's clean balance sheet, top management team, expanding network, and fully funded status, believe that ALGX shares represent a bargain at current levels; top pick in CLEC sector.

On target in tough...

Analyst report.

Buy rating and \$28 target. Turning the corner towards profitability. 2Q results in line with expectations. Company added 135,800 lines for a total of 869,700 lines at the end of the quarter.

ALGX: on the mark. Company maintained its 2001 guidance for revenue, EBITDA and lines installed. Company is fully funded with a healthy balance sheet and impressive execution. Management delivered on promises made at May 2 analyst day and continues to demonstrate strong execution of its business. Maintain cautious stance on CLEC sector; Allegiance is a solid story in an unsteady sector. Greatest challenges lie in its managed modem, web hosting and e-commerce businesses. Expect lower capital spending in 2H01; additional spending beyond its 36-market plan will be success based.

Strong Buy with \$42.50 target price. Allegiance does it again; revenue in line and EBITDA better than expectations. Raising EPA estimate for 2001. Continue to believe Allegiance has most attractive balance sheet in CLEC industry. Key reasons Allegiance is liked: 1) reported strong 2Q results, 2) right products for the right market, 3) proven track record, 4) fully funded business plan and very attractive balance sheet relative to the industry, and 5) management remains confident in its guidance. Shares represent excellent investment.

Allegiance reported 2Q results after close on Tuesday which were generally in line with both our forecasts and company guidance. Capex continues to run higher than expected, although ALGX makes a convincing case that it should drop considerably, since the company is expected to launch the same number of markets and light almost as many fiber markets in 2H01 that it did in 2Q alone. Revenue continues to improve. Hope to see greater improvement in EBITDA and capex. Cutting 2H01 gross margins by 200 bps and increasing EBITDA losses by \$3M. Company expected to be well funded well into 2003.

After market close Allegiance reported revenues, EBITDA, and line adds in line with forecast. We make no change to FY01 revenue est of \$350 million and EBITDA loss est \$104.5 million. Hold. Remain concerned about outlook 2H due to slowing economy. Given a higher-than-anticipated cash burn experienced during the quarter, we no longer view the company as fully funded now with a \$5 million funding gap.

ALGX: continued execution - outlook favorable despite risks. Reiterating Buy/Speculative recommendation. Estimate FY01 EBITDA loss to be \$104.7M; EBITDA positive in 2H02. Spending budget of \$115M allotted for 2H01; believe this supports our new 2002-2003 capex estimates of \$250M (down from \$290M). Allegiance continues to perform consistently and is well positioned to meet FY01 guidance but believe the number of risk factors in increasing. See \$20-30M working capital cushion in 2004; FCF estimated to turn positive in 2004.

Allegiance Telecom - once again, the company defies the odds and produces strong 2Q results; revenue, EBITDA and EPS all in line with expectations; network and back office improvements continue; reiterate Buy rating. Shares represent a bargain at current levels. Company fully funded on its current plan.

Chicago's InterAccess becomes part of Allegiance's Hosting.com division.
San Diego's CTSnet and CONNECT.NET become part of Allegiance's Hosting.com division.

CSFB
Kaufman

Lehman Brothers

McDonald Investments
(McDonald) (aka KeyCorp)

Robertson Stephens
RS MMN
Stephens

UBS

Wachovia

CIBC

CSFB

CSFB

McDonald Investments
(McDonald)

PRN
PRN

11:01
11:01

-1.6%

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source	Event
					Buckingham Research	Allegiance's numbers pledge is met. Strong Buy rating and \$74 price target. Company has 607,700 installed lines. The true absurdity is this situation is that we have no mathematical reason to reduce target. Allegiance's 2Q01 results hit every metric, its leverage and capital spending were less than anticipated and it is clear that the company has survived the worst of the dot.com collapse and may well be benefitting from it. While the stock is up about 20% since the company reported last week, that's just a pimple to the damage that's been done to the stock at a time when the company was clearly an innocent bystander. Clearly, Allegiance's shares move with those of other CLECs regardless of the company's superior business plan and execution by Allegiance management. Don't see that changing. Believe most of the damage has been to this stock and after more exits in the CLEC market, ALGX likely to begin moving upward. Near-term target is \$25-\$30 per share.
					UBS	Buy; 12 month price target \$27. Solid execution and success in its mature markets. The company is a rapidly growing provider with a fully funded business plan and a healthy balance sheet that has demonstrated strong execution. Allegiance's smart-build model leverages existing ILEC infrastructure to gain market share quickly and cost-effectively. Planned expansion to 36 markets by the end of 2001 should complete its build-out and drive both revenue and margins. Allegiance has demonstrated solid execution and its success in its mature markets shows product concept. Based on its current 36-market business plan, we estimate that Allegiance Telecom is fully funded, a key advantage given current market conditions. We believe Allegiance will achieve positive EBITDA in mid 2002.
7/31/2001	798,100	\$ 14.99	8.1%		DB	<i>Reports of our death are greatly exaggerated (or are they)?</i>
8/1/2001	1,309,800	\$ 14.84	-1.0%	8:26	BN	Allegiance rated new Buy at Deutsche Banc AB (DBAB); price target is \$21.
				11:15	PRN	Allegiance debuts service in Ontario/Riverside, California.
				13:59	PRN	DBAB launched coverage on CLEC sector with initiation of 6 companies with Allegiance started as a Buy. Analyst identifies Time Warner Telecom and Allegiance Telecom as having the best risk/reward profile in the industry.
					Deutsche Banc MMN (DB)	<i>Initiating coverage with a Buy.</i>
					Wachovia	By the end of 2001, expect Allegiance to have 20 markets with metro fiber. Reiterating our Strong Buy rating on ALGX shares for capital gains/higher-risk accounts, company reported second-quarter revenue of \$124.1 million, essentially on target with our expectations. EBITDA of (\$28.1) million was slightly better than our forecast of (\$29.0) million. EPS were a loss of 92 cents, well ahead of our forecast for a loss of \$1.02, and \$0.03 better than the "Street" estimate loss of \$0.95. To reflect the better-than-expected bottom-line results, raised our 2001 EPS estimate to a loss of \$3.73 from a loss of \$3.82. Impressed by the company's ability to execute and meet expectations with all the turmoil present in the industry. Continue to believe Allegiance has the most attractive balance sheet in the CLEC industry, and view Allegiance as one of the most attractive investments in the CLEC industry at this time. Reiterating Strong Buy rating for capital gains/higher-risk accounts, and our price target is \$42.50 per share.
8/2/2001	685,400	\$ 14.23	-4.1%	9:39	BN	Allegiance was reiterated short-term and long-term Strong Buy at Hibernia Southcoast Capital.
					The Press-Enterprise	Allegiance' 34th market is in Ontario/Riverside area. Company has yet to show a profit; has been plowing its capital back into development of new and existing markets. Company has kept debt low and has not yet tapped \$500 million credit facility.
					DB	<i>Scaling the 'UNE Factory'.</i>
8/3/2001	815,300	\$ 13.79	-3.1%	16:07	Hibernia BN	<i>ALGX MMC - operational metrics - detailed trend analysis.</i> Verizon and other big local carriers face at least a \$10 million fine when they violate new U.S. Senate bill requiring them to separate their retail and wholesale operations.
8/6/2001	507,100	\$ 13.75	-0.3%		First Global	Margins have shown steady improvement over last 6 quarters and is on track to achieve EBITDA positive by next year. Market expansion seen target. 34 reached of 36 goal. Company fully funded. Progress of earlier markets continuing to grow. Allegiance has better financial metrics compared with other CLECs. Allegiance has lowest debt-equity ratio among all CLEC players at 74%.
8/7/2001	860,300	\$ 13.05	-5.1%			
8/8/2001	693,100	\$ 12.60	-3.4%		Stephens	What's wrong with Cisco? A carrier engineer speaks.
8/9/2001	1,068,100	\$ 12.52	-0.6%		Stephens	Secondary market carriers; telecommunications industry report. Three CLEC carriers left. Allegiance rated Buy. Logical buyer of Choice One is Allegiance Telecom, whose major-market strategy would mesh well with Choice One's secondary market emphasis.
8/10/2001	1,087,300	\$ 12.50	-0.2%			
8/13/2001	1,517,800	\$ 14.10	12.8%			
8/14/2001	715,200	\$ 13.25	-6.0%		SEC	10-Q filed for period ending June 30, 2001.
8/15/2001	618,200	\$ 12.81	-3.3%			
8/16/2001	596,700	\$ 13.34	4.1%		CIBC	Deleting coverage of Allegiance Telecom; Strong Buy.

EVENT CHRONOLOGY

Date	ALGX Volume	ALGX Price	Residual % Chg	Time	Source
8/17/2001	945,600	\$ 12.19	-8.6%		Stephens

8/18/2001				1:06	BN
8/20/2001	693,700	\$ 12.45	2.1%	13:14	PRN
8/21/2001	393,400	\$ 11.82	-5.1%		
8/22/2001	422,700	\$ 12.10	2.4%	8:31	PRN
8/23/2001	1,191,600	\$ 12.24	1.2%	12:37	Fitch
8/24/2001	1,337,400	\$ 13.32	8.8%		
8/27/2001	1,412,500	\$ 12.80	-3.9%		
8/28/2001	998,400	\$ 12.35	-3.5%	10:59	PRN
8/29/2001	461,300	\$ 11.90	-3.6%		BB&T Capital Markets (BB&T)
8/30/2001	758,000	\$ 11.79	-0.9%		
8/31/2001	645,400	\$ 12.43	5.4%	13:20	Business Wire
9/1/2001					
9/3/2001					
9/4/2001	938,900	\$ 12.01	-3.4%		
9/5/2001	1,225,600	\$ 11.79	-1.8%		
9/6/2001	557,200	\$ 11.32	-4.0%		
9/7/2001	877,200	\$ 11.09	-2.0%	14:24	UBS
9/10/2001	1,608,700	\$ 10.17	-8.3%	7:05	TheStreet
9/13/2001				18:12	BN
9/14/2001				8:41	BN
				9:21	BN
				14:39	BN
				16:03	BN

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Event

An irreverent, but hopefully accurate, look at spectrum caps - federal government regulations that limit the amount of frequency that any one wireless carrier can control.

Time Warner Telecom and Allegiance recommended on 'Rukeyser' Show. Time Warner and Allegiance are two of the best telecommunications stocks to own, said manager of the Invesco Telecommunications Fund. "They both have the balance sheets that will get them through this difficult period. They don't have to come back for more money. Other carriers who tried to come back couldn't and they are failing now... These companies are executing. They have the balance sheets. They have the best management teams -- so we like them."

Thule U.S. selects Hosting.com's managed hosting services.

MegaPath Networks announces T-1 access supplier partnership with Allegiance.

Fitch affirms Allegiance's ratings. B+ senior secured rating assigned to its \$500 million secured credit facilities; B senior unsecured rating assigned to its 11 3/4% senior discount notes due 2008 and 12 7/8% senior notes due 2008. Rating Outlook is Stable. Since its inception, company has operated under a fully funded business plan, receiving over \$1.6 billion in public and private equity and issuing \$650 million of high yield debt. Has not made downward revisions to its financial projections. Acquisitions that were completed to ramp-up its data business, have been immaterial to debt and EBITDA. At 2Q01, ALGX had \$312 million in unrestricted cash and marketable securities. Its cash and securities coupled with its undrawn \$500 million credit facility fully funds the company's 36-market business plan to the point of generating free cash flow. Fitch expects company to generate positive EBITDA in the second half of 2002 and EPS by year-end 2004. Fitch continues to expect ALGX to spend approximately \$350-360 million on capital in 2001.

(Cont'd) ALGX is one of few CLECs that generates more than 25% of its revenues from data. ALGX has accelerated its data initiative through cash and stock acquisitions of ISP/web hosting companies. Although currently immaterial to total revenues, the acquisitions have added valuable personnel with data product knowledge and broadened ALGX's data presence nationwide. In the short-term, acquisitions will have a minimal effect on EBITDA. Fitch acknowledges that negative event risk exists due to the company's relatively limited financial flexibility as it may seek to acquire a CLEC or ISP to broaden its existing footprint, add network capacity and/or add data products. Historically, ALGX has conservatively structured its acquisitions. Company may seek to expand its current business plan, expanding domestically and/or internationally, which may delay the company's ability to generate positive EBITDA.

Fitch affirms Allegiance's ratings. B+ senior secured rating assigned to its \$500 million secured credit facilities; B senior unsecured rating assigned to its 11 3/4% senior discount notes due 2008 and 12 7/8% senior notes due 2008. Rating Outlook is Stable. Fitch expects positive EBITDA in 2H02 and EPS by year-end 2004.

Allegiance launches Hosting.com brand in Austin.

ALGX: the place to be when the smoke clears.

Analyst report.

CLECs: 2Q01 vital signs review. Results generally in line with expectations. Allegiance has Hold opinion. Top picks are McLeodUSA and Communications.

2Q01 CLEC performance - Time Warner and Allegiance lead the pack in five key metric rankings.

UBS Warburg HY issues report.

Allegiance is best CLEC in the business, by any definition. Company hits its numbers every quarter. While company is fully funded, it is losing a ton of money. EBITDA losses have troughed and capex coming down significantly. If you believe that the CLEC opportunity is a real one, which I do, then this stock has a lot of upside.

Verizon, peers may see demand for teleconferences if companies cut back on air travel; about 8 to 10 fold increase.

WSJ: Allegiance to forward lower Manhattan 212 area codes.

Allegiance was reiterated Accumulate at FBR.

Allegiance moves NY lines out of state to continue service.

Verizon, phone shares may provide haven; carrier sales are not expected to fall in wake of attack. According to Morgan Stanley analyst, "their stable business models and strong financial condition will likely appear to a defensive investor orientation."